CHAPTER-ONE
INTRODUCTION

1.1 General Background

Budget is the Short term master and financial plan. It can be taken as a document which is closely related to both Management function as well as accounting function of an organization. Budgeting is an effective tool of planning and control. “Budget is financial and quantities statement prepared or approved prior to define period of time, the policy to be pursued during that period for the purpose of attaining a given objective.” The Chartered Institute of Management Accountant, England. Thus is a process designed to help management effectively to perform significant phases of planning and control function because in which first of all forecasted and when actual results are known, are compared continuously with Budget estimates. On the other hand, any organization designed to make profit and profit is the primary or key measure of its success. Profit is the acid test of firm’s performance.

There are several different interpretation of the term “for different people, say to investor, businessman, economists, workers, tax collectors, and accountants. To a layman profit means all income that flow to the investors. To the business community, business profit refers to the revenue of the firm minus the explicit cost of the firm. For an economist profit is return over opportunity cost or reward for entrepreneurship for risk taking. The worker may say that it is measure of how efficiency labor has produced. The tax collector might regard it as the base for determining income taxes. The Account defines it simply as the excess of the firm’s revenue over the firm’s revenue over the firm’s expenses. Because of the different interpretation of different people the term profit cannot be bounded to limited area, it covers the broad area.

Profit is the lifeblood of the business organization, which not only keeps it alive but also assures the future and makes it sound. In order words, every such organization needs profit to survive and complete in the open market. The success or the failure of the business firm depends upon the margin of profit because profits are the primary requirement for its success. Moreover, the margin of profit is regarded as one indicator of economic situation of the business firm. Since profit earning plays a vital role for achieving the objectives of an organization. It's necessary for all organization to earn reasonable profit.

The main objectives of any business organization are to maximize its profits and at the same time render reliable services to its customers. Both of the objectives have great significance in the management of the organization. Profit is a tool with the help of which efficiency of an enterprise can be measured. However, profit cannot be achieved without good organizational measurement.

Nepal is predominately agriculture country. Agricultural accounts 38.2 percent of the country's GDP for the FY 2063/64 BS (NRB Annual report for FY 2063/64 BS). About 80 percent of the Nepalese population depends on agriculture sector for income and employment and about the same percent of the population still resides in rural areas where life depends in agriculture related activities. During the last six year, the average growth rate of GDP was below 5 percent, the growth rate is 2.3% during FY 2006/07 AD (Economic Survey, GON, MOF, 2007 AD). The growth in GDP greatly depends upon the vagaries of nature. The growth of non- agriculture sectors is also constrained by the small size of the domestic market, the landlocked position of the country, poor physical infrastructure and inadequacy of human and financial resources

The major indicators of socio-economic development showed that Nepal is still one of least developed countries of the world. Even the social indicators such as literacy, life expectance, access to safe drinking water, health and sanitation are still far below than the level in other developing countries. The infant mortality is in the highest and malnutrition and immunization rates are the worst.

In the above mentioned context, the only way of economic growth of the nation is to identify the viable sectors and develop them. Such sectors, so far seen here in Nepal are agricultural sector, industrial sector and tourism sectors, which can play vital role in overall development of the country. It is only possible when there is sufficient financial support available and this gives the significance of financial institutions. Further, the study of the comprehensive budgeting system aspects in these institutions is one of the crucial and important works as these institutions are survived in its output i.e. the true profit.

The history of modern financial system in Nepal was begun in 1937 A.D with the establishment of Nepal Bank Ltd. As the first Commercial Bank in Nepal. The bank was established to render services to the people for the economic progress of the country. It played the role of central bank also before the establishment of Nepal Rastriya Bank (NRB) 1956 A.D. Then His Majesty's Government (HMG/N) and NEB jointly established Nepal Industrial Development Corporation (NIDC) in 1959 AD. The NRB created the agriculture credit fund in 1959/60 AD and handed it over to then HMG/N for the establishment as cooperative bank in 1963 AD.

The second commercial bank, the Rastriya Banijya Bank was established in the public sector in 1966 AD, with the equity participation of them HMG/N and the Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the co-operation Bank. Then HMG/N had established the Land Reform Saving Corporation in 1966 AD to make credit available to village communities and land Reform saving corporation was merged with ABD/N in 1973 AD(Shrestha,2000 AD)

Large number non-banking financial institutions were set up between 1962 Ad to 1977 AD such as Employ Provident Fund(1962 AD), the National Insurance Corporation (1967 AD), the Nepal Insurance Company Ltd. (1968 AD), the credit Guarantee Corporation (1974 AD) and Securities Marketing Centre (1977 AD). The legislation of the Commercial Bank Act 1974 AD set out regulation for licensing, supervision and cancellation of license of Commercial Banks and encouraged the establishment of other Commercial Bank in Nepal. The move towards financial liberalization encouraged the entry of joint venture commercial of Nepal was established 1984 AD. The Nepal Indosuez Banks Ltd. And Nepal Grindlays Bank Ltd., two other joint venture commercial banks were established in 1986 AD and 1987 AD respectively.

Almost all the financial institutions such as Commercial Banks Development Bank, Rural Development Bank, financial Companies, Co-operatives involving in saving and credit activities etc. are operating under Nepal Rastra Bank (NRB), the central bank of Nepal except some of the co-operatives which are under the supervision of Cooperative Department.

Financial Institutions have played vital role in the economic growth of the country. The development process of a country involves the mobilizations and deployment of resource and financial institutions have become much more significant than ever. Their activities like lending towards priority sector, deprived sector and thereby helping in income generating activities. For the poor community and person, these institutions are major role players for the endeavor toward poverty alleviation.

As we know tow major public commercial banks Nepal Bank Limited and Rastriya Banijya Bank were suffered from financial crisis. The independent groups of consultants found out these banks were operating under negative net worth and suggested to adopt proper strategic management. As a result, with the aid of World consulting firms. Within short period span of 2-4 years, these banks are now having operating profit. However, being negative net worth, this problem affects the vital role of these financial institutions in the economic growth of the country. Country never gets the chance to see the economic boom, as the main resource mobilizing agencies get ill. Hence, these financial institutions shall need to search the best way to survive in the world. These financial institutions are involving in the business and should agree the best comprehensive budgeting system is the best way to survive in the world.

As like in the other profit oriented business organization, a commercial Bank has also to make reasonable profit for its survival. Most of the commercial Banks are formed as a company with joint stock and the shares being traded at stock exchanges. Therefore profit made by made by them has also remained as one of the vital parameter for measuring of the efficiency of these Banks.

Due to increase in rate of establishment of financial institutions, these are facing the problem of getting long-term prime customers. They even started for compete each other to provide the better facilities to their clients so that they can attract the valuable customers. But, these institutions are facing problems in recovering the bad lending and different financial frauds during the lending.

In every bank, there is high pressure to the marketing department for increasing lending. This leads to choose the client quickly without going detail history and those lending later on become bad. Most of the banks and financial institutions are writing off volume of bad lending every year. Ever through investors are still attracted towards investing in maintaining their speed up in the life of financial institutions. Hence, it is clear that the effective and comprehensive budgeting system in all the financial institutions could be existed to impact the management system so that the investment in these financial institutions are most beneficial due to their nature of generating high returns.

At the glance of the past researchable , it was concluded that the private commercial banks were operating with proper control system than public commercial banks. On the part of the profit panning, the private commercial banks are focused on ad-hoc budgeting where as public commercial banks are under political influence.

In general since profit is regarded as peculiar gain excess of return over outlay. Profit plays an important role in measuring utility for accounting and tax purpose, for better incentives to work, selecting proper resources, to reach in correct investment decision. So, for generating profit requires good deal of managerial capability and managerial talent. Budgeting is the primary function of the management. Budgeting is deciding in advance, what to do, how to do, when to do and who is to do the functions.

Planning is the process of selecting and developing the best course of action to accomplish an objective. It is done on the basis of past experience, present information and future expectation. Budgeting is the path of preferring the task. So it should be interring related to organizational objective.

The main objectives of any organizations are to maximize its profit and at the same time render reliable services to it customers. Both of the objectives have great significance in the management of the organization. Profit is the tool with the help of which efficiency of an enterprise can be measured. To earn profit proper budgeting system should adopted so that loss may not be incurred in future.

1.2 Introduction of the Bank (NIBL)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 AD as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital) was Credit Agricola Indosuez, a subsidiary of one the largest banking groups in the world. With the decision of Credit Agricola Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, in April 2002 AD, acquired 50% of the holdings of Credit

Agricola Indosuez Bank. The name of the bank was changed to Nepal Rastra Bank and Company Registrar's Office.

The bank has good profit track history. It had been awarded twice with the prestigious award "Bank of the Year" by the London-based Financial Times Group's The Banker in 2003 AD and 2005 AD. It is the first Nepali Bank, which won the award two times in three years. Bank was selected for this honor amongst the Nepali banks by meeting the stringent benchmark criteria set by The Banker. The award is based on the growth and performance in terms of capital, assets, and return on equity and management quality. As return on equity is one of the factors for awarding this prize, the study of comprehensive budgeting system in the bank becomes necessary.

1.2.1 Shareholding Structure of NIBL

The shareholding structure of the bank as on 2008 AD comprises of :

- A group of companies holding 80% of the Capital
- General public holding 20% of the Capital

1.2.2 Vision and Mission of NIBL

NIBL visions "To be the most preferred provider of Financial Services in Nepal"

NIBL's mission statement is " To be the leading Nepali bank, delivering world class service through a blend of technology and visionary management in partnership with our committed staff, to achieve sound financial health with sustainable value addition to our stakeholders"

NIBL is committed to this mission while ensuring the highest levels of ethical standards. Professional integrity, corporate governance and regulatory compliance.

1.2.3 Objectives and Principles of NIBL

Its strategic objectives of the bank are to develop a customer oriented service culture with special emphasis on customer care and convenience, increase our market share by following a disciplined growth strategy. Similarly, to leverage its technology platform and open scalable systems to achieve cost-effective operations, efficient MIS, improved delivery capability and high service standards, develop innovative products and services that attracts our targeted customers and market segments. the bank continue to develop products and services that reduces our cost of funds. Maintain high quality asset portfolio to achieve strong and sustainable and explore new avenues for growth and profitability.

NIBL believes that success can only be achieved by living its core values and principles, such as customer Focus, quality, teamwork, good corporate governance, and corporate social responsibility.

NIBL prime focus is to perfect customer service. Customers are first priority and driving force. It wishes to gain customer confidence and be their trusted partner. It believes a quality service experience is paramount to its customers and it is strongly committed in fulfilling this deal. It ensures the highest level or integrity to its customer, creating an ongoing relationship of trust and confidence. It treats its customers with honesty, fairness and respect. It recognizes that employees are its most valuable asset and its competitive strength. NIBL respects the worth and dignity of individual employees who devote their careers for the progress of the Bank. Bank is a believer in teamwork and knows that loyal and motivated teams can produce extraordinary results. Bank is driven by a performance culture. It recognizes and rewards to individual merit and demonstrated record for accomplishment. Effective Corporate Governance procedures are essential to achieve and maintain public trust and confidence in any company, more so in a banking company. NIBL is committed in following best practices resulting in good corporate governance.

As a responsible corporate citizen, NIBL considers itself important to act in a responsible manner towards the environment and society. Its commitment has always been to behave ethically and contribute toward the improvement of quality of life of people, the community and greatly the society, of which it is an integral part. (Source NIBL Annual report 2005/06 AD)

1.2.4 General Activities:

As like in other business concerns, commercial banks are also concerned about making profit because profit is the major element of each business for their survival, further development and fulfilling social expectations. In modern business the effectiveness and efficiency of the business organization and their growth are measures from the profit earned by them.

Banks deal with money and perform several financial, monitory and economic activities that are essential for economic development of a country. It is a service industry and therefore its profit plan are of the different format then those in manufacturing united, a bank has resources mobilization and deployment plan and is aims at maximizing the profit out of their activities.

Nepal Investment Bank being commercial bank and also business concern performs various kinds of profitable business activities.

General Activities (Main Products/Services)

A Consumer Bank

i. Account is local and foreign currency
ii. Fund transfer service, local and international
iii. Credit care services; issuance and acceptance
iv. 24 hours ATM service
v. Safe deposit Locker
vi. Foreign Exchanges services
vii. Consumer finance-auto loan, personal loan, home loan. Gold/Silver loan
viii. Visa Electron Debit card and Visa Credit Card
ix. E-Zee Saving Scheme
x. 365 days banking

B Corporate and Institutional Bank

i. Trade Finance
ii. Bonding
iii. Commercial lending
iv. Debt syndication
v. Electronic banking

C Account holder form any branch of country can avail its service for :

i. Account opening
ii. Cheque withdrawal
iii. Cheque and cash deposit
iv. Traveler’s cheque issuance and encashment

v. Draft issuance

vi. Foreign Currency exchange.

Supervision and control of the Audit Committee and submits its reports directly to the latter to supplement the in house internal audit department; the Bank has also hired a firm of Charted Accountants to conduct internal audit functions in the review year. In addition, the Bank has also constituted a ‘Compliance Committee’ comprising of various departmental heads to further strengthen compliance and internal control system of the Bank.

1.3 Statement of Problem

Commercial Banks play vital role in economic growth of a country. As being commercial Bank, any bank must make profit out of its operation for its survival and fulfillment of the responsibilities assigned. Major activities of Commercial Bank include mobilization of resources, which involves cost and profitable deployment of those resources, which generate income. The differential interest income over the interest cost, which is popularly called as interest margin or spread, can be considered as form the burden to the contribution margin and other non-funded based income which bank may generate through its efficient management.

But due to some reason the share of such income could not share the cost substantially. The reason may be management policy. So this proposed study will concentrate following aspect of management budgeting.

- Existing budgeting policy of bank management.
- Whether or not management has succeeded to improve budgetary policy.
- Effectiveness of existing budgets on management

1.4 Objectives of the Study

The basic objective of this study is to appraise Nepal Investment Bank Ltd. Appropriately for the application of Comprehensive Planning or Budgeting system to improve the management. Thus, the major objectives are:

1. To highlight the current budgeting policies adopted by NIBL and its profit process.

2. To analyze the budgeting and its use in actual achievement of the different aspect.
3. To study the growth of the business of the bank over the period.
4. To provide suggestion and recommendation for improvements of the overall profitability of the bank.

1.5 Significance of the Study

This research study is concerned with the comprehensive budgeting of one of the Commercial Banks in Nepal, the Nepal Investment Bank Ltd., with the major objectives of examining the impact on profit system by the existing budgeting system in the Bank.
Budgeting process significantly contributes to improve the profitability as the overall financial performance of an organization by the help best utilization of resources. Accomplishment of objectives in every organization depends upon effective application of scarce resources. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. So all the organizations, running central commercial principle has to give regard to this very important single tool while managing their physical and financial targets. If the budgeting process of an organization is effective and result oriented, the pace of development naturally steps forwards.

Budgeting is the heart of management. It proves profit is the most important indicators for judging managerial efficiency and does not just happen; every organization has to manage for its profit. Various functional budgets are the basic tools for proper planning of profit and control over them. This research study may be useful for those who want to know the Budgeting System in the Nepal Investment Bank. It may also be helpful for future researches as the reference material.

1.6 Scope and Limitation of the Study

In the dynamic world, nothing is free from limitation. This study also is not an exception. The research has however tried to eliminate the limitations to the best possible extent yet it suffers from the following limitations:

1. The study is made for partial fulfillment of the requirement of the Master's Degree in Business Studies (MBS), Tribhuvan University and in short duration of time. Therefore, only Nepal Investment Bank has been taken for this study.
2. Only the budgeting aspect of the bank has been analyzed leaving other areas uncovered.
3. The study covers the related data of the bank from FY 2003/2004 AD to 2007/2008 AD, correspondingly FY 2060/061 BS to 2064/065 BS.
4. Primary data is collected only from the informal discussion with the personnel of the bank, otherwise based on secondary data.
5. The accuracy of this study is based on the data available from the management of Nepal Investment Bank, the various published documents of the bank and the response made by the respondent during the informal discussion.
6. Actual budget could not receive from the bank. For the purpose of study, trend has been calculated based on actual figures of first three fiscal years.

1.7 Scheme of the Study

The study will be divided in to five chapters.

First Chapter: Introduction

This chapter includes background, current picture of Nepalese economy, importance of financial institutions emergence of commercial bank in the economy, general view of comprehensive budgeting, Brief Profit of Nepal Investment Bank, objectives of the study statement of the problem, significance of the study and scope and limitation of the study.

Second Chapter : Review of Literature

The chapter includes; concepts of commercial banks and their various activities, broad picture of budgeting and review of previous work

Third Chapter: Research Methodology

This chapter explains the methodology implemented to carry out the study. This includes the population, sample plus data collection processing and procedures employed, research design, date collection procedures and the tools and techniques to the employed for the analysis of data.

Forth Chapter: Presentation and Analysis of Data

This is main body of the study. Data and graphs are interpreted with the results of the findings in such a way so that the objectives of the study can be achieved.

Fifth Chapter: Summary of Major Finding and Recommendations

The conclusion of the study and the recommendations suggested to any person willing to carry out further study in the topic.

The bibliography and the appendix are added up to give the report a finishing touch.

References Books, Magazines, Newspaper, Previous dissertations are shown under bibliography.

Documents, Compile Sheet, Calculations etc are separately shown under appendices

A Curriculum Vita is placed at the end of the dissertation.

CHAPTER-TWO

REVIEW OF LITERATURE

2.1 Meaning of Budget

Budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. In the words of I.M. Pandey, "A budget is a comprehensive and coordinated plan expressed in financial term for the operation and source of an enterprise for some specific period in the future.

"As regard the term 'profit' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written form is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operations with respect to a definite future period are included. It is a formal statement of policy, plan objectives and goals established by the top-level management in respect of some future period."

A budget forecast, in detail, of the results of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency. "Budget is a defined as a comprehensive and co-ordinate plan, expressed in financial term for the operations and resources of an enterprise for some specified period in the future." (Fremgen, 1973 AD)

According to his definition the essential elements of a budget are:

- Plan
- Operations and Resources
- Financial Terms
- Specified Future Period
- Comprehensive
- Co-operation

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

2.2 Budgeting: As a device of profit plan

Budgeting is a forward planning. It serves as a device (tool) for management, control; it is rather pivot of any effective scheme of control. G.A. Welsch in his book "Budgeting PPC" has rightly pointed out that "Budgeting is the principal tool of planning and control offered to management by accounting functions" (Welsch, 1999). John G. Golver and Coleman L. Maze have expressed a similar view. In their opinion, the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important toll in the hands of management. Since, budgeting deals with fundamental policies and objectives, it is prepared by top management.

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

Budgets are an important tool of profit planning. The main objectives of budgeting are:

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

2.3 Essentials of an Effective Budgeting

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

A. Sound Forecasting

Forecasts are the foundation of budgets, these forecasts are compared among the executives and when most profitable combinations of forecasts are selected, they become budgets.

B. An Adequate and Planned Accounting System

There should be proper flow of accurate and timely information in the enterprise, which is must for the preparation of budgets. It can be ensured if there is an adequate and planned accounting system in the organization.

C. Efficient Organization with Definite Lines of Responsibility

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

D. Formation of Budget Committee

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

E. Clearly Defined Business Polices

Every budget reflects the business policies formulated by the top management. In other words, budgets should always be prepared taking into the policies set for particular department or functions. However, for this purpose, policies should be precise and clearly defined as well as free from any ambiguity.

F. Availability of Statistical Information

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

G. Support of Top Management

If a budget program is to be made successful, the sympathy of each member of the management team towards it should starts preferably from top i.e. chairman. The enthusiasm for budget operation as well as direction for it should initiate and come from top.

H. Good Reporting System

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

I. Motivational Approach

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

2.4 Development of Profit Plan

Development of profit plan in commercial bank begins with the preparation of various functional budgets. Those functional budgets are in fact the picture of various activities of the bank to be performed during a particular period of time. Therefore, the functional budgets of a bank are activity based such as budget for deposit collection, budget for lending and investments, budget for non-fund based business, budgets for expenditures and revenues.

The development of profit plans process that involves managerial decisions and ideally a high level of management participation. The following are the budgets, which are developed in a bank while making a profit plan.

2.4.1 Resources Mobilization Plan or Budget

The planning for resources mobilization is the foundation for planning in a bank. The all other planning is based on it. The major and the sustainable resource of a bank is the customer deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization.

The lending and investment activities are depended on the deposit mobilized by the bank. Therefore, the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the bank, customer's deposits are of two kinds, viz. (i) Interest free deposit i.e. current deposits, margin deposits etc and (ii) Interest bearing deposit i.e. saving deposits, fixed deposits of various tenure, call deposits etc. The interest free deposits are cost free but are generally volatile in nature. Those can be withdrawn without restriction from the bank, thus cannot be invested into higher income yielding assets.

Further, interest-bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure. Therefore, a proper mix of cost free and costly deposits corresponding to short term and longer term deposit at the same time having comfortable mix of income yielding assets. The cost of deposit of banks is also affected by the prevailing deposit interest rate of other banks in the market.

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

Among the capital fund, the equity capital is formed generally one time during opening of the bank. The Central Bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank. General Reserve, the other type of capital fund, has to be raised every year by at least 20% of the net profit earned by the bank until the amount gets double the paid up capital.

Further, the bankers may choose by themselves whether or not to increase the owner's capital by rising the other time included in capital funds besides paid up capital and general reserves. It is always better to have a higher capital fund base of the bank because, creation of bank's assets, and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central bank.

As per NRB directives, banks shall have to build their capital base at least 12% of risk assets from F/Y 2062'063 BS (NRB Directive no. 1/061/62). And a bank can take the size of exposure per borrower equivalent to maximum of 25% of its core capital in fund based, and 50% of that in non-fund based exposure (NRB Directive no. 3/061/62).

2.4.2 Resources Deployment Plan or Budget

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. The assets are allocated based on the nature of resources. This approach of deployment of resources is called asset allocation approach.

M.C. Vaish wrote in his book 'Money Banking Trade and Public Finance' that, "The fundamental criterion which must be followed in allocating funds or acquiring different types of assets is that the velocity-turnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposit which are more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank."

Therefore, the budgeted deposit mix is the major determining factor of the planning of assets portfolio.

A bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on the fund of bank. Therefore banks resources deployment of process involves following:

- Deployment in liquid assets;
- Deployment in lower income yielding assets;
- Deployment in higher income yielding assets;

Funds kept as cash in vault and as balance with NRB and other banks in current account are most liquid assets of the bank. Normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the central bank from time to time. There is no yield in the fund deployed as liquid assets.

Deployment for lower income yielding assets are generally placing the funds in short term securities, treasury bills etc which provides reasonable liquidity to the bank as well as yield some return although they are the very low rate.

Major portion the income of the bank comes as interest income from the resource deployed to loans advances and bills discounting (LDO). As the most part of the resources are for LDO, Banks make its lending budgets in advance as per their lending policies. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets. The targets are allocated to the branches, which are generally operated as separate profit centers.

2.4.3 Planning for non-funded business activities

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

The bank fixes annual target for such business and those are allocated to the branches of the bank.

2.4.4 Expenditure Planning

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

- Interest Expenses
- Personnel Expenses
- Official Operating Expenses
- Expenses meeting the loss in Exchange Fluctuation
- Non-operative expenses
- Expenses for provision for loan loss
- Expenses for provision for staff bonus
- Expenses for provision of income tax

The Interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all kinds of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses of a bank, the portion of interest expenses is quite higher. Therefore, the expenses are categorized into interest expenses and other expenses while the later includes other expenses as mention above except the interest expense.

Interest expense in a bank depends on the average cost of Deposit (COD) mobilized by the bank. Lower the COD lower the interest expenses and thus higher the profitability. Therefore, from profitability point of view banks plan their COD at the lowest possible level.

The nature of interest expense is that of a variable expense. The net earning from interest income of a bank deducting the interest expense for the deposit mobilized is called "Spread" which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing units.

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

2.4.5 Revenue Plan

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

Revenue of a bank is generated in the following forms:

- Interest income
- Commission and Discounts
- Dividend
- Other income
- Foreign Exchange income
- Non-Operating income

Generally, the interest income of a commercial bank holds a major portion in total revenue of the bank and it provides the major source of earning of a bank. Therefore total income of a bank is categorized in two type viz. Interest income and other income, while the later including other income items as listed above except the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advantages, overdrafts, investments in government securities debentures etc, for this study, the income from Bills discounting has also been treated as interest income as we consider loans, overdraft and bills discounting together as a single asset portfolio as LDO.

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

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

2.5 Implementation of the Profit Plan

2.5.1 Completion of the Annual Profit Plan

"The development of an annual profit plan ends with the planned income statement, the balance sheet and the planned statement of changes in financial position. These three statements summaries and integrate the details of plans developed by management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally, desirable to recast certain budget schedules to that technical accounting mechanics and jargon are avoided as much as possible.

The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The date of profit plan completion is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar." (Welsch-1999 AD)

2.5.2 Implementing the Profit Plan

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principle is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management.

The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities, while taking into account the problem of security. After distribution of the profit plan, a series of profit plan conferences should be held.

The top executives discuss comprehensively the plans expectations and steps in implementation. At this top level meeting the importance of action, flexibility and continuous control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use. Conferences should be held so as to covey the profit plan to each level of management.

The manager of each responsibility centre obtains an approved profit plan for his centre and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects. Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment, or failure is immediately known. On this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential.

"A budget programs viewed and administrated in a sophisticated way does not hamper or restrict management, instead, it provide definite goals around which day today and mouth to mouth decisions are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility in budget application is essential and it increases the probabilities of achieving or bettering the objectives." (Welsch-1999 AD)

2.6 Zero – base budgeting

Zero base budgeting is constructed on the premise that every activity in the budget must be justified. It start with the basic premise that the budget for next year is zero and that every expenditure, old and new, must be justified on the basic of its cost and benefit. The discipline of zero base budgeting takes a different approach in fact, a reverse approach to this problem of justifying everything. What is says is this: begin with where you are and establish a business as usual budget for next year the same way and the same thing you would do if you weren’t concerned about constraint and total justification.

2.7 Establishing the Foundation for Managerial budgeting

To establish sound foundation for initiating a managerial budgeting program, the following steps should be followed:-

Step 1: There must be commitment by the top management to the broad concept of managerial budgeting or PPC and a sophisticated understanding of its implication and operation.

Step 2: The characteristics of the enterprise and the environment in which it operates including the controllable and uncontrollable variables must be identified and evaluated so that relevant decision may be made over the characteristics and practical.

Step 3 : There should be an evaluation of the organization structure and assignment of managerial responsibility and implementation of changes deemed necessary for effective planning and control.

Step 4: There must be evaluation and reorganization of the accounting system to ensure that it is tailored to the organization responsibilities so that it can provide data particularly useful for planning and control purpose.

Step 5: A policy determinations must be made about the time dimensions to be used for managerial budgeting or PPC purpose.

Step 6: A program of budget education should be developed to inform management at all levels about (a) the purpose of the program; (b) the manager in which it will operate, including the basic management policies and guidelines for the administration; (c) the responsibility of each level of management in the program; and (d) the ways in which the program can facilitate the performance of each manager's function (Welschm Hilton and Gordon, 2001:59)

2.8 Objectives of Managerial Budgeting

1. The main objectives of managerial budgeting are as follows:
2. To state the firm's goal in clear term to avoid confusion & facilities their attainability.
3. To communicate expectation to all concerned with the management to the form so that they are understood support and implemented.
4. To provide a detailed plan of actions for reducing uncertainly and for i9ts proper direction of individual and group efforts to achieve goal.
5. To co-ordinate the activities and effort in such a way that the use of resources maximized.

6. To provide a means of measuring and controlling the performance of individual and nit and to supply information based on which the corrective action can be taken.

2.9 Advantages of Managerial Budgeting

1. The main advantages of managerial budgeting are as follows:
2. It forces early consideration over basic policies.
3. It requires adequate and sound organization structure: that is, there must be a defined assignment of responsibility for each function of the enterprises.
4. It compiles all members of management, from top to bottom, to participate in the establishment of goal and plans.
5. It requires adequate and appropriate historical accounting data.
6. It instills at all level of management the habit of timely, careful, and adequate consideration of the relevant factors before reaching important decision.
7. It reduces cost by increasing the span of control because fewer supervisors are needed.
8. It tends to remove the uncertainty that exists in man organizations, especially among lower levels of management, relative to basis policies and enterprises objectives.
9. It pinpoints efficiency and inefficiency.
10. It forces management to give adequate attention to the effect to general business conditions.
11. It forces recognition and corrective action.
12. It reward high performance and seek to correct unworkable performance.

2.10 Disadvantages and limitations of Managerial Budgeting.

1. The main disadvantages of managerial budgeting are as follows:
2. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
3. It is not realistic to write out and distribute our goals, policies and gudlines to all the supervisions.
4. It creates all kinds of behavioral problem.
5. It adds a level of complexity that is not needed.
6. It is too costly, aside from management time

7. The manager, supervision, and other employees hate budget.

2.11 Components of managerial budgeting

1. The components of managerial budgeting can be mentioned as follows:
2. The Substantive Plan
3. The financial plan
4. Variable Expenses Budget
5. Supplementary Data
6. Performance Reports and
7. Follow-up

2.12 Process of Managerial Budgeting

The managerial budgeting process should involve periodic consistent an depth re planning so that all aspect of operation are carefully reexamined and reevaluated. This prevents a budget planning approach that involves only justification of increases over the prior period. The concept of revaluation and the necessity to justify all aspect of the plan periodically finds its strongest support in what has been called zero base budgeting.

2.12.1 Identification and Evaluation of External Variable

Management planning must focus on how to manipulate the controllable variables. Moreover, there must be managerial planning of how to work with the non controllable variables. That is for both kinds of variable, how can management take advantage of potential favorable impacts and minimize potential unfavorable impacts on the enterprise. By relevant variable we mean those that will have a direct and significant impact on the enterprise.

Particularly, significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprise. Planning must necessarily status with on objective and returns understanding of the present status of products, service, market, profit and returns on investment cash flow, availability of capital, productive capabilities, and the competence of both management and non management personnel.

2.12.2 Development of Board Objective of the Enterprise

Development of the board objective of the enterprise is a responsibility of executive management. Based on a realistic evaluation of the relevant variable and an assessment of the strengths and weakness of the organization, executive management can specify or restate this phase of the managerial budgeting.

2.12.3 Development of specific goal for the enterprise

The primary purpose of the "goal phase" of the PPC or managerial budgeting process is to bring the statement of broad objectives into sharper focus and to generate more specific planning information from the realm of general information. It provides both narrative and quantitative goals that are definite and measurable and should be developed by executive management as the second component of the substantive plan for the upcoming budget year. These are specific goals that relate to the enterprise as a whole and to major responsibility centers.

2.14.4 Development and the evaluation of Company strategies

Company strategies are the basic ways and tactics that will be used to achieve planned objectives and goal. A particular strategy may be of short term or long term. The purpose of developing and disseminating enterprise strategies is to find the best alternative for attaining the planned broad objectives and specific goals. Executive management must be creative and directly involve "how" and thus which outline a plan of action for the enterprise.

2.12.5 Executive management planning instructions

The executive panning instruction, instead by top management, communicates the planning foundation that is necessary for participation of all levels of management in the development of the strategic and tactical profit plan for the upcoming budget year. Executive leadership is fundamental in developing and articulating this planning foundation including the formulation of relevant strategies (Welsch, Hilton and Gordon, 2001: P-78-79).

2.12.6 Preparation and evaluation of project plan

Project plan encompass variable time horizon because each project has a unique time dimension. Project plans encompass such item as plans for improvement of present product, new and expanded physical facilities, and entrance into new industries, exit from products and industries, new technology and other major activities that can be separately identified for planning purposes. The nature of project is such that they must be planned as separate units. During the formal planning cycles management must evaluate and decide upon the plan status of each project in process and select any new projective to be imitated during time dimensions converted by the upcoming strategic and tactical profit plan (Welsch, Hilton and Gordon, 2001: P-79)

2.12.7 Development and approval of strategic and tactical profit plan

The strategic long range and tactical short range profit plans normally should be developed concurrently for all practical purpose and that the executive in charge of each of the responsibility centers throughout the firm should participate in their development in harmony with panning premises. Meaningful participation in the planning process generates positive behavioral effects. A manager of each responsibility center has to initiate immediate activities within his own functional sphere to develop a strategic long range profit plan as soon as he receive the planning premises and procedural instructions.

2.12.8 Implementation of managerial budgeting

Implementation of management plan, developed and approved in the planning process involves the management function of leading as well as motivating subordinates in attaining enterprise objectives and goals. For that effective management at all levels requires in the enterprise to communicate the objectives, goals, strategies, and policies and make the subordinates to be understood. On the other hand, there are many facets involved in management leadership and each of them stands on their own values and norms. Thus under managerial budgeting process, management should be aware in establishing realistic and attainable goals and objectives; to the overall enterprise and to each responsibility center.

2.12.9 Use of periodic performance report

As profit plan are begin implemented during the period of time specified in the tactical plan, periodic performance reports are needed. These performance reports are prepared by the accounting department on monthly basic. Also some special performance reports are prepared more often on an "as needed" basic .These performance reports (a) compare actual performance with planned performance and (b) show each different as a favorable or unfavorable performance variation (Welsch, Hilton and Gordon, 2001: P-85).

2.12.10 Use of Flexible expenses budgets

The flexible expenses budget is also known as the variable budget, sliding scale budget; expenses control budget or formula budget etc. The flexible budget concept completely applies only to expenses. It is completely separate from the profit plan, but used to complement it. In the context of Nepal, most of the companies' especially public enterprises do not have the practice of using flexible budget procedures. And rests integrate flexible expenses budget to the profit planning procedures.

2.12.11 Implementation of follow- up

Follow up is an important part of effective control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions. It is important to distinguish between cause is primary a responsibility of line management. Analysis to determine the underlying causes of both favorable and unfavorable performance variances should be given immediate priority. In the case of unfavorable performance variances after identifying the basis causes, as opposed to the results, are selected. Then the corrective action must be implemented. (Welsch, Hilton and Gordon, 2001:P-88)

2.13 Budgeting as a tool of managerial budgeting

A budgeting is a written plan for the future. The manager of firms which use budgets, are forced to plan ahead. Thus, these firms ten to do well because they anticipate problems before they occur. A firm without financial goal may find it difficult to make proper decision. A firm with specific goals, in form of budget, makes many decision ahead of time Budget helps a firm to conform its costs by setting guidelines for spending guidelines for spending money for undead items.

Budget as a tool of planning and control is clearly related to the broader system of planning and control in an organization. Planning involves the specification of the basis objectives that the organization will pursue and fundamental policies that will guide it. In operation term it involves the step of setting objectives, specifying goals, formulating strategies, and expressed in financial terms, for the operation and resources of an enterprise for same specified period in the future (Khan & Jhin 1989: P-296)

Hence, budgeting includes sales, production, distribution and financial aspects of an organization, Budget programs are designed to carry out a variety of function, planning, evaluation of performance, coordinating activities, implementation of plans, communicating motivating and authoring.

2.13.1 Characteristics of Good Budgeting

The characteristics of god budgeting are as follows:-

1. Budgeting maybe formulated for the organization as a whole as for any subunit.
2. A good system of accounting is also essential to make the budgeting useful.
3. A budgeting is a quantities expression of a plan of action and aid to co ordination and implementation.
4. A good budgeting system should involve persons at different levels while preparing the budgets; the subordination should not feel only imposition on term.
5. Budgets are designed to carry out a variety of function planning, evaluating activities and implementation (Rathman, 1974:P-21-22)

2.13.2 Objectives of Good Budgeting

The main objectives of budgeting are as follows:

1. It is a plan, which reflects the policy of a business in financial terms.
2. It is a plan of action and serves as a declaration of policies.
3. It is a control document by which management can monitor actual performance.

4. It is the plan to forecast for future to avoid losses and to maximize profits, i. e. to help in planning.
5. It is a plan state the firm's expectation unclear, formal term to avoid confusion and to facilitate their attainability.
6. It defines the objectives for the entire executive's communication.
7. It is a plan to bring about co ordination between different function of an enterprise, i. e. to help in coordination.
8. It is a plan to communicate expectations to all concerned with the management of the firm so that they are understood, supported and implemented.
9. It acts as a motivator of employees.
10. It provides a means of coordination and communication. It is a measure against which to evaluate the quality of management.
11. Budget facilitates centralize control with delegated authority and responsibility (Rathman, 1974: P-20)

2.13.3 Classification of Budgets

Classification of budgets is as follows:

A) On the basis of time

1. Long term budget
2. Short term budget
3. Current budget

B) On the basis of function

1. Sales budget
2. Production budget
3. Direct material budget
4. Direct material purchase budget
5. Direct labor cost budget
6. Cost of production budget
7. Selling and distribution expenses budget
8. Cash budget
9. Capital budget

C) On the basis of flexibility

1. Static budget
2. Flexible budget

D) On the basis of nature of business activities

1. Capital expenditure budget
2. Operating expenditure budget

2.13.4 Problems and limitations of Budgeting

The major problems of budgeting system are as follows:

1. Developing meaningful forecasting and plans, especially the sales plan.
2. Seeking the support and involvement of all levels of management.
3. Establishing realistic objectives, policies, procedures and standards of desired performance.
4. Educating all individual to be involved in the budgeting process and joining their full participation etc.

The following are the limitation of budgeting system:

1. Budgeting is not an exact science. It success hinges upon the prevision of estimates.
2. The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to a continuous exercise. It is dynamic process.
3. the success of the budgeting program is to understand by all and concerned effort for accomplishing the budget goals.
4. The presence of a budgeting system should not make management complacent. The get best results of management; management should us budgeting with intelligence and foresight. Budgeting cannot replace management.
5. Budgeting will hide in efficiencies if a proper evaluation system lacks. It should be re examined regularly.

2.14 Performance Reports

Performance reporting is an important part of a budgeting system. Its phase of a budgeting program significantly influences the extent to which the organization's planned goals & objectives are attained. Performance reports deal with control aspect of budgeting.

The control function of management defined as "The action necessary to assure the objectives, plans, policies & standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

Special external reports, reports to owner & internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management.

Fundamentally, actual results of reports are compared with goals & budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient & inefficient performance.

a. Features of performance reports

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

- Tailored to the organizational structure and focus of controllability (that is by responsibility centers)
- Designed to implement the management by exception principle
- Repetitive and related to short term period
- Adapted to the requirements of the primary users
- Simple understandable & reports only essential information
- Accurate and designed to pinpoint significant distinctions
- Prepared and presently promptly
- Constructive in tone

b. Aspects of performance reports

To extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serves the management and decisions making needs of the users.

Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary data as well as detailed data on day-to-day operation. Similarly lower level management needs reports that must be detailed, simple understandable & limited to items having a direct bearing on the supervisor's operational responsibilities.

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

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

2.15 Management involvement and commitment

Managerial support, confidence, participation and performance orientations include managerial involvement. All levels of management especially top level management should consider following points in order to make budgeting program successful.

- Understand the nature and characteristics of comprehensive budgeting.
- Be convinced that this particular approach to manage is preferable for their situations.
- Be willing to devote the effort required to make it operative.
- Support the program in its entire ramification.
- View the result of the planning process as performance commitments.

Budgeting program to become successful, it must have the full support of each members of management, starting with the president the impetus and direction most come from the very top.

2.16 REVIEW OF PREVIOUS RESEARCH WORK

The budgeting in the context of Nepal Investment bank seen to be a new subject to study for research and analysis. The researcher found following studies in related topic for the purpose of partial fulfillment of the requirement for master degree in Business Studies focused on the profit planning in commercial bank and other organization.

Review Of Thesis

Damodar Nirula has made research on "Impact of Budgeting in profitability of Nepalese public enterprises (A case study of Nepal Electricity Authority) submitted to faculty of management, Shanker Dev campus for partial fulfillment of MBS on March 2008. In this study Mr Niraula has pointed out following major findings and recommendations.

Findings

1. NEA has the practice of preparing two types of managerial budgeting, which are tactical and strategic. Tactical plan prepared for external purpose but strategic plan is made only for top level management or internal purpose.
2. NES is not achieving sales target. The sales achievement percentages of amount are 91.82, 92.13, 93.50 and 98.70 percent for the fiscal year 057/058, 058/059, 060/060 and 061/062 respectively.
3. Actual sales revenue is increasing in every fiscal year period and found of reaching unto Rs 13103.184 million in FY 2063/64. Likewise, actual production is also in the increasing trend and found of reaching up to 2642.75 million units in FY 2063/064
4. NEA has vast gap between actual sales and actual production. It proves that it has not been success in selling its available production completely.
5. Operating costs have been controlled effectively. In fiscal year 059/060, it was Rs 1832.3 million and reached to Rs 2122.3 million in the fiscal year 2063/064.
6. NEA hears huge unit of power losses and is increasing year by year . In fiscal year 2063/064. It is found to be 678.357 million units, which is 25.67 percentage of total units produced.
7. It is not considering CVP analysis as a tool for developing the sales plan and pricing strategy.
8. It is found the NEA is not utilizing its capacity fully and effectively due to the lack of adequate fund and the traditionalism.

9. Total debt turnover ratio of NEA is not found to be favorable.
10. The activity ratios are also found at below the standard for the period covered by the study.
11. The sales revenue variance of NEA is in an unfavorable condition. NEA has no any favorable variance during the stuffy period.
12. NEA has no practice of analyzing strengths, weakness, opportunities and threats in dept at the time of preparing managerial budget and that is why, it is facing a tough competition from independent power producers and supplier.
13. Recommendations
14. Most of the above conclusion points are seemed to be unfavorable; those should be made correction as soon as possible. I strongly suggest the following to NEA and to all of the Nepalese Public Enterprises who are facing the above mentioned problems respectively, to change unfavorable points into favorable:
15. NEA shall develop an efficient management system to get control over cost, It must classify the costs into fixed cost and variable to maintain the Accounting Standard.
16. NEA shall restructure its capital and give emphasis over the internal financial so as to avoid burden of interest. On the other hand it should complete the proposed projects in time so that they will get return to repay loan in time.
17. NEA shall follow a strict credit collection policy to collect account receivable in time. Collection policy shall not be influenced by politics.
18. NEA shall utilization its optimum capacity by importing the latest technology around the world and by making a group of management standby for it.
19. NEA should maintain its periodic performance report systematically.
20. NEA shall maintain a sound liquidity position by the help of increasing current assists and/or by decreasing current liabilities.
21. The authority shall maintain optimum level of staffs scientifically. It will help to reduce unnecessary cost and to increase efficiency.
22. It should develop sound relation between departments and directorates and encourage the participatory management system in setting the overall objectives

of the enterprise. NEA should undertake regular supervision and monitoring from top level management.

23. NEA should adopt standard costing system and also establish a cost control centre for cost control purpose.
24. NEA should adopt systematic approach of managerial budgeting that is essential to increase the profitability and for the planners should be trained properly. It should also try to adopt the managerial calendar as well.
25. The authority should develop a proper co-ordination between budget formulation, implementation and evaluation of achievement.

Rashmin Tamrakar has submitted “A study of Profit Planning of NIDC Capital Market Limited(Bittya sanastha)” , her major findings are:

1. NCML prepares both short-term and long-term profit plan but long-term profit plan is confirmed only to the top- level executives.
2. NCML has started saving deposit with clearing facilities which is remarkable step to stick its position in the financial institution business.
3. The new location of NCML and its own building is one of the plus points for the company but due to location problem the customer are getting problem.
4. The trend line of interest income, loans & advances, interest expenses and total deposit is upward sloping.
5. The profit figure of NCML is quite fluctuating during studies 5 ye4ars period, it bear loss at FY 59/60 and then recover the heavy profit afterwards.
6. The company has a good performance as its operating income is being in increasing trend.
7. The company is strictly in supervision of Nepal Rastriya bank rules and regulation. So it is operating under the rules and regulation made be NRB for the financial institution.
8. NCML have no depth analysis of company's strength and weakness. The present study shows the following strengths and weakness of this company.

i. strengths:

Sound image of Confidence of the consumers regarding service & quantities

ii. Weaknesses

- Lack of strong, continued and accountable management system.
- Lack of clearly defined jobs and roles.
- Lack of motivation and dedication of the staff.
- Excessive interference both form political and bureaucratic levels.
- Lack of co-ordinations in procurement and marketing.

9. NCML is initial stage of banking service sector, so there is stiff competition of it with the commercial banks, financial institution and other cooperatives in terms of interest rates, other services and quality of services provided by the company.
10. NCML is renowned for issuing share and debentures of different companies including banks, development banks and other companies also. So it must also concentrate in its merchant banking service also.

Recommendation

1. The NCML should maintain its periodic performance report systematically and variance analysis should be effective to NCML
2. NCML is a financial institution, it should serve public however it should run in commercial principal and has to be self-sustainable by its own income, it must carry out the objective of surplus generation with fill commitment and responsibility.
3. NCML has to make some collection policies to appreciate its customer to pay their dues to should provide incentive to staff to encourage them for the collection of overdue amount of account receivables.
4. NCML should clearly classify its cost as fixed, variable and semi-variable.
5. Economic objective should be clearly defined whether it's economic objective is profit making or to run on BEP, or others.

6. NCML should have in depth analysis of the corporation's strength and weakness; it should try to over come its weakness by using the strengths.
7. NCML should develop the systemic periodic for performance reports detailed by assigned responsibilities for accomplishing the planning objective.
8. Management information system should be developed, Information is requiring in respect to market trends. Computers activities demand and supply and price situation, general economic indicators, marketing practices distribution strategies and promotional policies, inventories, man power strengths and assets etc.
9. The budget must be prepared on realistic basis but not in forecasting
10. NCML must go for other services other than recently handling to increase profit.
11. It must be aware of other financial institutions entering to the similar types of business and must analysis their strength and weakness.
12. The company should adopt a systematic approach to budget preparation. To adopt this approach planning expert should be hired or existing planners should be trained. The implementation considerably contributes to increase the profitability of the industry.
13. Top level executives of NCML should be undertaken regular inspection and monitoring of budget center and if possible NCML should formulate the Profit Planning Calendar.

Mr Upendra Rawal (November 2005AD) has conducted research in the topic " A Profit Planning in Commercial banks. A case Study of NEPAL INVESTMENT BANK LTD." The research of Mr Rawal was mainly concerned with examining system of profit Planning applied in NIB for the time period of five years(1999/2000 to 2003 /2004)

findings

1. Bank is awarded by Bank of the year 2002 AD Nepal.
2. Bank management policy is very strong. It kept minimum number of employee and b\highly qualified to maintain the job.
3. The bank operated with only 11 branches in Nepal.

4. The Bank adopts always–new technology.
5. The bank is providing 365 days service and ATM service for the customers.
6. The Bank provides funds for Schools, Social and community works.
7. Customer deposit collection is the main resources mobilization of the bank.
8. Loan, Allowance and Bill purchasing hold the highest outlet of resources development
9. There is significant relationship between budget and Actual LABP.
10. Bank's Actual deposit is higher than actual outstanding LABP. Hence the coefficient of variation of actual deposit is higher than actual outstanding Liability LABP.
11. LABP holds the highest outlet of resources develop among the various portfolios.
12. Actual LABP are in increasing trend.
13. There is prefect correlation between actual deposits and actual LABP
14. There is no continuity in letter of credit amounts. Its increase or decrease every year.
15. Bank guarantee, outstanding liabilities is increasing and decreasing every year.
16. Interest expense is the highest portion among in other cost.
17. Coefficient of variation of actual deposit is higher than of actual interest expenses.
18. The highest revenue comes from the interest income among the other revenue.
19. Actual outstanding LABP are more variable than interest income.
20. The bank has high debt equity ratio, and average 2.14%
21. The analysis of BEP shows that the bank figure is an earning trend will be encouraging if it can increase its revenue and decrease in burden.
22. The analysis of cash flow that the strong position of bank.

Mr Rawal has pointed out the following **recommendations:**

1. Level wise specific job description and responsibility assignment should be mentioned clearly.

2. Bank management should adopt the policy of appropriate authority delegation at all level of management in order to save the valued time to the chief executive officer for other productive use.
3. Employee training at advance level should be given more focus in order to keep the manpower updated with the changing practices and the technologies.
4. It is suggested to the bank to forma specific Planning and research Department, which shall be responsible for developing new innovative products, further development and up-gradation of existing products, which in turn ensure better profitable business for the bank.
5. Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head Office.
6. Objective of the bank should be clearly defined in order to avoid the risk of it being misinterpreted.
7. Bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reduce the interest cost.
8. Bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.
9. The bank should keep adequate required infrastructure to support its objective.
10. Bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other source than interest to increase its profitability.
11. Bank should minimize those expenses, which are not related to income earning,. Other expenses than interest form a burden to the gross margin (interest margin) of the bank, therefore lowering the other expenses; the bank shall enhance its profit.
12. NIB shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses. At the same time, it should take a policy to make the interest margin at the maximum extent as allowed by the central bank's norm.

Mr. Phanindra Raj Kharel (September 2006 AD) has conducted thesis research on "Budgeting Practices in Public Manufacturing Enterprises. A case Study of Dairy Development Corporation". The research of Mr.Kharel was objected as follows:

1. to analyze the sales revenues trend of DDC
2. to analyze the various financial budgets adopted in DDC.
3. to analyze the production function, overhead expenses and other reasonable activities of DDC.
4. to analyze variance and ratio analysis of DDC.
5. to recommend the suitable suggestion to the corporation.
6. The research was focus with the time period FY 2057/58 BS to 2061/62 BS. The following important findings and recommendations were provide.
7. DDC has not strategic planning of milk collection of milk collection. It has been practicing tactical planning only.
8. The sale trend of milk and dairy products shows to collect more to increase sales. Actual collection, sales and production of milk and dairy products are not increased as requirement.
9. The corporation has not proper practice of segregating cost into fixed variable.
10. DDC has the policy of fixing pricing.
11. DDC has not followed the loan to livestock farmers.
12. The budgeted sales of milk and dairy products are higher than the actual sales.
13. The capacity utilization rate is increasing year after year but DDC has not met its needed capacity to get profit. So, it falls under losses every year.
14. DDC has applied stable inventory policies (Opening stock of inventory of equal to closing stock of inventory)but this policy is not applied in practices, closing stock quantity is not fixed.
15. Flexible budget of DDC shows more than 90% variable cost of sales revenue.
16. DDC has not been practicing to plan effective execution of program by supervision and monitoring.

17. Personnel management is very poor. Employees are not also satisfied to the working style of DDC.
18. DDC has problem of maintaining the quintiles of the product because there is lack of proper training.
19. DDC has utilized excess fund without proper policy under corporation fund, subsidiary, can-revolving fund etc.
20. DDC has not been practicing flexible budgeting.
21. Proper management to supply sufficient milk in the urban areas is not placed because of the difficult in collection of sufficient milk from rural market.
22. There is not separate planning department and expert planner so, it plans on traditional method.
23. The top-level executives are only involved in planning and decision-making and lower level participation is not encouraged.

Mr Kharel has pointed out the following **recommendations**:

1. DDC should try to forecast and prepare long range forecasting of profit planning.
2. DDC must increase actual sales because it is decreasing and loss is occurring. So, sales budgeting profit plan must be reviewed.
3. DDC must review targeted sales to increase actual sales.
4. The main problem of decreasing is sales is poor collection of milk, so this factor is affecting to decrease are. Thus, DDC must try to increase collection by increasing chilling centers and collection network.
5. DDC must prepare flexible budget and capacity should be utilized as shown by flexible budget.
6. DDC must formulate clear and attainable objectives in long term and short term. For these appropriate policies, strategies programs are required
7. DDC should develop its specific goals for the coming budget i. e. sales budget, production budget, purchase budget, labor budget etc. and the overall profit planning.

8. DDC must bring challengeable action programmers to execute profit planning by competing with other dairy industries; different kinds of facilitation program to product plenty of milk and incentive to farmers in budgets.
9. DDC must hire trained and highly qualified manpower of budgeting and planning.
10. Proper motivational program and reward and punishment system must be conducted for effective execution of profit planning. There must be open and separate PP unit and PP director should be appointed to achieve the organizational goals.
11. DDC must take fair and profitable price for its products.
12. Deviation from budgets must be analyzed and necessary corrective steps have to be taken on the basis of actual sales and production.
13. Profit planning manual should be communicated from top to lower levels. Each person should be participated on decision-making process; it should maintain proper coordination within the organization so profit plan or budgeting can give good result.
14. DDC should develop periodic performance reports and minimize the gap between planned and actual sales of budgeting.
15. The cooperation is facing the problem of under capitalization by which production is affected, so to enhance the production capacity, the necessary financial arrangement should be considered.
16. Organizational structure should be maintained effectively to get high efficiency in operation of profit plans.
17. Sales promotion in different ways should be done.

Mr. Sanjeeb Karmacharya in his thesis "A study of sales budgeting of insurance companies (A case study of Everest Insurance company, 2006)" submitted to the Central Department of Management, Tribhuvan University has done research keeping the following objectives:

1. To find out the status of profit of the company.

2. To examine the trend of sales and profit of the company.
3. To look into the method of sales budgeting used by the company.
4. To examine whether the sales achieved by the company is appropriate according to the target or not.

Findings

1. Everest Insurance Company is one of the successful and oldest insurance companies in Nepal. It contains many staffs, but it is found the there is lack of interaction among staffs.
2. The trend of actual sales, target sales and profit all are in increasing trend that means the company is good in its sales and profit.
3. The correlation between actual sales and target sales is 0.9965 whereas the correlation between actual sales and profit is 0.8807. Both the correlation is significant that is there is a high degree of positive relation between them.

Recommendations:

1. The company should try to find out the reason for decline in market share and it must act quickly to regain the market share.
2. Everest Insurance Company should motivate its sales team and increase its promotional schemes to the customer to increase its current sales and market share.
3. Everest Insurance Company tries to maintain its sound management to maintain and to get more success than its present situation.
4. The company should expand its business not only in terms of its products but also in terms of its market. The company should try to increase its branches inside and outside the Katmandu valley.

Mr. Kapil Dev Regmi in hsi thesis " Profit Planning and Control in commercial banks of Nepal Grind lays Bank now Standard Chartered Bank Ltd, 1997)"' submitted to the Central Department of Management, Tribhuvan Univeersity has done research keeping the following objectives:

1. Highlight about the company's establishment, growth, objectives, function and other relative factors.

2. Analyze the PPC of STBL by measuring various quantitative suggestions such as profit, dividend, cost, interest income, loans, investment, deposit and other important variables.
3. To recommend steps to be taken to improve the profit planning process.

Findings:

1. Revenue, cost and profit of STBL is higher than other joint venture commercial banks.

Jay Prasad Ghimire in his Project report "Impact of budgeting on profitability with reference to Nepal water supply corporation," 2007 submitted to the central department of management Trubhuvan University has done research keeping the following objectives.

The time period cover by the study was 5 years groom FY 2057/58 to 2061/62.The data was collected both primary and secondary sources. The main secondary source of data was financial resources, Annual Reports of Nepal Water Supply Corporation.

i. To examine the present condition of NWSC relating to production and distribution of water in the country.

ii. To analyze the various fundamental budgets of NWSC.

iii. To review the financial status of NWSC.

iv. To point out the major short coming and recommend suggestive measures.

In the Project work he had presented so many finding among them some major finding he had presented are as follows:

1. NWSC doesn't followed complete and comprehensive budgeting system.
2. It prepared only short tem profit plan (for one fiscal years) which is usually referred as budget.
3. Not scientific way of preparing overhead budget in NWSC. All the expenses of corporation are shown as operating expenses
4. Moreover there is no classifying the cost as fixed cost and variable cost.

5. Various statistical tools show the positive relationship between budgeted sales and actual sales.
6. NWSC has been facing more problems in profit planning system.
7. NWSC doesn't prepare capital expenditure budget capital expenditure are made according to the necessity.
8. Duties and responsibilities are not identified between various levels of management.
9. NWSC can improve its profitability by utilizing idle capacity and effective cost control programmers.
10. HE has recommended following major points in his study for the consideration to improve the exiting situation
11. Nepal Water Supply Corporation should develop its specific goal for coming budgets.
12. Co-operation and good understanding among all employees from top management to bottom level is required.
13. It should be free from government's interference in steeling the strategies and policies of fulfill the objectives.
14. The management of corporation should define cost clearly. Operating as well as non operating expenses should be controlled to increase the profit of NWSC.
15. NWSC should develop its overhead cost in a well classified as well as scientific way. Cash budget should be developed separately and policy to finance the cash deficit and utilization of excess fund should formulate.
16. there should be effective utilization of fixed assets by developing capital budgeting techniques more effectively
17. To improve the financial condition of NWSC cost volume profit relationship, contribution margin approach and different ratios must be considered while formulating profit plan and to increase profitability.

18. A systematic approach should be made towards comprehensive profit planning. This can considerably contribute to increase the profitability and efficiency of the corporation.

2.10 Research Gap

Most of the past research studies are focused on profit planning of the organization and budgeting system of manufacturing or producing organization.

The research of commercial banks, dissertations have pointed out that there is no proper profit planning system and recommended for the effective implementation of profit planning system in the concerned institutions even though most of the banks and financial institutions are getting steps on high profit and becoming the high dividend paying organization

this study can be taken as budgeting system and its impact on profit particularly of Nepal invest bank Limited covering the period when the has been awarded by prestigious award "Bank of the year" in 2003 A. D. and 2005 A. D.

this study has tried to indicate the role of budget for effectiveness of banking profit and the study has been extended to get the answers of following research questions

a. Does Nepal Investment Bank have appropriate budgeting system?
b. What are the impacts of budgeting system on profit?
c. Does the bank mobilize the deposit and other resources at optimum cost?
d. As the deployment resource by the bank generating satisfactory yield level?
e. What are in overall can be recommended for their proposal?

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter refers to the overall research method comprising the theoretical aspect to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspect and logical aspect on the basis of historical data, performs a well designed quantities research in a very clear and direct way, using both financial and statistical tools. This research is descriptive analytical as well as exploratory in future. For this purpose data has been managed in proper form for interpretation and explanations wherever necessary. Details research methods are described in following headings

3.2 Research design

Research design means the definite procedures and techniques which guides the study and professed ways for research viability.

This study is an examination and evaluation of budgeting process of Nepal Investment Bank. Various functional budgets and other related accounting information' and statement of the bank are the materials to analyze and evaluate the budgeting system of the bank. Descriptive as well as analytical research designs have been adopted in this research. This is a case study Research.

3.3 Population & Sample

As this report aims at studying the comprehensive budgeting system of commercial bank taking the case study of a single bank i. e. Nepal Investment Bank, and data have been analyzed for whole five years FY 2003/04 AD to 2007/08 of its operation, the population and sample term is not relevant for this study.

3.4 Sources of Data and Data collection strategy

This study is mostly based on secondary data. However, primary data and information have been obtained through informal discussions with the executives and other staff of the bank. Secondary data have been collected from the annual published accounting and financial statement of Nepal Rastra Bank. Similarly, other necessary data have collected from publication of the Nepal Rastra Bank, the Central Bank of Nepal. Central Bureau of Statistics and related publications.

3.5 Research Variables

Loans/Advances Overdrafts and Bills Discounted (LDO), Customer deposit, total resources, total development, outstanding balance of Letter of Credit and Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, Other Income etc of NI Bank are the research variables of this study.

3.6 Tools and Techniques

This study is confined to examine the comprehensive budgeting policies of Nepal Investment Bank; therefore, the data have been collected accordingly and managed, analyzed and presented in suitable, formats, diagrams, graphs and charts. Such presentations have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, test of goodness of fit the regression estimate, correlation, mean, standard deviation, coefficient of variance etc.

3.7 Financial Tools

a) Ratio Analysis

- Current Ratio
- Capital Structure Ratio
- Employee Productivity Ratio
- Profitability Ratio

b) Cost Volume Profit Analysis

3.8 Statistical and Mathematical Tools

- Mean
- Standard Deviation
- Coefficient of Variance
- Correlation of Coefficient
- Coefficient of Determination
- Probable Error

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

In this chapter the researcher will analyses the various profit variables and profit management of respective bank. This study mainly focused on analysis of net profit, interest income, interest expenses, total income deposit, loan and advances, investment, assets etc by using financial and statistical tools (such as mean, standard deviation , coefficient of variance, collection of coefficient, regression methods and budgetary tools such as ratio analysis, cost volume profit analysis.

4.2 Data Analysis of Nepal investment Bank Limited.

All the respondents were interviewed whether the bank process its annual business plan or not, it was responded that 'Yes' the bank has practice of preparing the annual business plan, Further they were asked since when the bank started to prepare annual business plan, it was responded that the bank had started to prepare the annual business plan since the start of bank operation. Further, on the query of bank's financial plans, it was responded that the financial plan of the bank consists of following:

- Plan for Resources Mobilization
- Plan for deployment of the resources
- Plan for non-funded business activities
- Revenue Plan
- Expenditure Plan

On the query related to the focus of plan, it was responded that the bank's plan has been primarily focused to increase the existing volume of activities and transactions, create the new opportunities in each of the categories, to provide better services to the customers, and increase the return on investment. On the question related to persons involved during preparation of annual business plan, it was responded that only the higher management personnel, like branch managers, department head and the top management personnel involved in the annual business plan.

On informal discussion with the budget officer, it was informed that the following are bank's annual business plans which have the strategic values.

- Increase in deposit mobilization
- Increase in Loan, advances and receivables
- Decrease bad loan
- Decrease cost of deposit
- Increase spread
- Increase Capital investment
- Retain the qualified and talent employees
- Motivate the employees
- Increase the share capital
- Increase the profit
- Increase the return on investment of investors
- Provide the new and additional services to the customers
- Provide satisfaction to the customers with service
- Reduce risk, etc.

Further, it was informed that for achieving the above stated plans, the bank had further planned the activities like:

- Increase in number of ATM
- Establish new branch
- Hire new staffs
- Acquire the land and buildings
- Take deposit from public
- Expand in new areas
- Introduce new policy
- Introduce new banking technology. etc.

On the basis of above observation, it could be stated that the bank is primarily focused to proved true banking facilities to its customers in its best effort. It was also found that

NIBL was the first bank providing the new banking facilities like e-banking, utilities bill payment services etc.

Budget is the quantification to the plan for implementation. This is the quantification of target of plan. On the query related to the preparation of the bank annual budget, it was responded that the bank has practice of preparing the annual business budget. Respondents were asked whether bank's annual business budget was basis of its operation, it was responded "Yes". On the query related the start date of budgeting system in the bank, it was responded that the bank has the practice of preparing the budget since its start of operation.

On the query related the approach of the annual business budget preparation, it was responded that it was top down approach. Hence, the budget information flows from top management to lower level. On the query related tot participation in budget preparation, it was responded that only branch managers, department heads and executive members are involved in budgeting process. In addition it was responded that past trends, existing market conditions, existing foreign business policy, Indian fiscal policy, Nepalese fiscal policy, existing demand forces of banking services, competitive banking conditions, etc. are the major factors which the bank consider while preparing the budget.
On the query regarding how the bank addressed the annual business plan while preparing the bank annual business budget, it was found the bank addressed by fixing:

a) Percent/amount increase in the deposit collection
b) Percent/amount increase in loan and advance
c) Percent/amount reduction of bad loan
d) Percent/amount increase in investment
e) Percent proportionate increase/decrease in administrative costs
f) Percent/amount increase of spread
g) Number and cost associated to staff training
h) Amount of addition capital request
i) Amount of public deposit to call
j) Percent increase in earning in investment
k) Percent/amount increase in profit
l) Value/price of capital investment

Further, it had been explained that from the above process of addressing, the bank determines the monetary amount and present separately by departments to consolidate to Master budget. As the bank did not provide the master budget for the purpose of study due to bank has the policy no to publish the internal bank budget, the budget were estimated by trend forecasting on basis of actual first three years figures. Such calculated budget is no balance budget. The budget is considered only to study the variance. The calculated budget for the study is as follows:

Table 1: Calculated budget for the study period

Fiscal Year	**Resources other than Deposit**	**Loans deposits & advance**	**Reemployment other than LDO**
2003/04	167300	7403501	5783601
2004/05	2138800	10323294	7641553
2005/06	2604700	13243087	9499505
2006/07	3070520	16162880	11357457
2007/08	3536364	19082673	13215406

(Source : Appendix 1,3,4 and 6)

On the question related to the establishment of separate budget unit in the bank, it was responded that the bank have has already established well functioning separate account and budget unit.

On the query regarding the practice of bank on budget revision and basis of revision, it was found that the bank would revise the budget and under following circumstances:

- Unavoidable circumstances exist
- Actual and budget varies significantly
- Necessity of introduction of new activities
- Circumstances beyond bank control cause influence the bank budget.

On basis of above observation, it could be said that the bank was operating under budgetary influence. The bank was able to address the bank annual plan in its annual budget and bank's budget was not rigid but flexible under different conditions.

On query related to the delegation of authority, it was responded that the bank has facility of delegation of authority. On query of management policy, it was found that the bank has following policies existed in operation:

- Capital investment policy
- Credit policy and procedures Guide
- Borrowing policy
- Dividend policy
- Human Responsibility policy
- Financial policy
- Credit review policy
- Liquidity policy
- Interest rate policy
- Technical policy
- Foreign exchange policy
- Assets insurance policy

As the budget is base on bank's annual plans and the policies are formulated for the implementation of the plans, the respondents were asked how the bank has reflected its management policies in budget system. It was responded that budget stressed to existing management system and policies in following ways:

- To change the management styles for achieving the budget goals
- Management focus to recruit the qualified and efficient staff
- Management to change the existing credit review process with extra control on selection of clients.
- Management to acquire and implement the new technology

On analysis of above observations regarding the budgeting system Of NIBL, it could be said that the bank has clear, effective and supportive budget system. The budgetary policy was top bottom approach. Budget unit was operating as the separate unit along with account division. The budgeting system was directly supporting to the management system in daily routine works and the budget was the basis of bank operation.

It has assisted to become enclosure between the management and the staffs in conditions environment. The bank is regularly improving its budget according to the past event, forecasted future events, effects of fiscal policies on Nepal and India. Management system could no feel its existence and success unless the effective comprehensive budgetary system is in place.

4.3 Financial Progress Analysis

The summary of progress is stated below:

Table 2: Annual Financial Progress of NIBL

Amount in Rs '000

Particular	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Share Capital	295,293	587,739	590,586	801,352	1203915
% Increase	-	99%	0%	36%	50%
Reserve & Surplus	433,755	592,435	824,845	1,076,771	1482871
% Increase	-	37%	39%	30%	38%
Deposit Collection	11,524,680	14,254,574	18,927,306	2448856	34451726
% Increase	-	24%	33%	29%	41%
LDO	7338,566	10453,164	13,178,152	17769100	27259305
% Increase	-	42%	26%	35%	53%
Interest Expenses	326,202	354,549	490,947	685530	992158
% Increase	-	9%	38%	30%	45%
Interest Income	731,403	886,800	1172,742	1584987	2194275
% Increase	-	21%	32%	35%	38%
Net Profit	152,671	232,147	350,536	201,399	698,673
% Increase	-	52%	51%	43%	39%

(Source :NIBL Annual Reports)

"The progress could not be reached just by thinking. It starts with plan and then implementation, which gives result as process." It could be seen in the case of NIBL. It had different plans to implement in each fiscal year of the study. The bank had implemented by placing additional services with necessary physical, HR and other related expansion. These result to increase n Share capital, Reserve and Surplus, Deposit collection, Loan and Deposit, interest Expenses, Interest Income and ultimate Net profit of the bank.

On 2003/04 AD the bank's share capital was Rs. 295293 thousand. It was stagnant on 2004/05 AD where as it was increased by 100% by management decision to issue 1:1 right share at par value. Due to issue right share and bonus share the share capital on 2006/07 and 2007/08 increased by 36& and 50%

Reserve and surplus of the bank was increased 37% in 2004/05 AD than that of 2003/04 AD. Reserve and surplus was increased by 39% in 2005/06 AD, it was mainly due to increase in profit and other reserves in 2005/06/ AD. Similarly, in 2006/07 AD it was increased by 30% than the previous year. It was due to increase in profit, interim and proposed dividend and capital adjustment amount. In 2007/08 AD the amount of reserve and surplus was increased by 38% than previous year. It was mainly due to items of proposed bonus shares and profit for the year included in reserve and surplus.
Deposit collection and loan, Deposit and advances are the major plans of the banks to increase in every year by substantial rate. Deposit collection was increased by 24%, 33%, 29% and 41% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than previous year. Proper and better marketing strategy, security provision and adequate return on deposit by way in interest than other banks and financial institutions supported to increase in deposit collection of the bank in the study period. Further, due to the security problems in the country, the individual were attracted to deposit their saving at the bank instead of other financial institution. At last time only one Rs. for new account (रु १ मा आफ्नै बचत खाता), attracts the new account holder for deposit.

Similarly, LDO was also increased by 42%, 26%, 35% and 55% in 2004/05 AD, 2005/06 AD, 2006/07 AD respectively than previous year. The increase of LDO is forced by increase in deposit collection as well as the bank policy to search of disinvests in auto loan, home loan, personal loans etc.

Interest income and interest expenses had been directly affected by LDO and deposit collection respectively. These could be changed at the rate of changes of LDO and deposit collection respectively, provided the rate of interests are same for all time and the changes in LDO and deposit collections are at the beginning of the year. As this could on be possible in banking business, there could not be possible to have changes in interest income and expenses on same rate of changes of LDO and deposit collection respectively.

The interest expenses were increased by 9%, 38%, 30% and 45% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than previous year as compared to increased in deposit collection by 24%, 33%, 29% and 41% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than previous year.

Similarly, interest income was increased by 21%, 32%, 35% and 38% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than previous year as compared to increased in LDO mobilization by 42%, 26%, 35% and 53 % in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than previous year.

Net profit of the bank is increasing. Net profit of the bank would depend on the interest income, expenses, other income and expenses. It was increased by 52% in 2004/05 AD than 2003/04 AD. Similarly, it was increased by 51%, 43% and 39% in 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than the previous year.

On the overall analysis, it was found that the bank in progressing each year in terms of capital investment, returns, total assets and net worth.

4.4 Financial data analysis and variance analysis of NIBL

4.4.1 Resources Mobilization

The term resources have been used for the fund required by the bank for its activities Banks mobilizes its resources from the following sources:

a) Deposit Collection
b) Loans & Borrowing from other
c) Capital fund

Among the above three sources, the deposit collection is the major source of mobilization, which is in fact, one of the most important activities of a commercial bank.

Loan and Borrowing are obtained from local banks, foreign banks, central bank and other financial institutions generally for a short period of time.

The capital fund is raised from shareholder's equity. This is the net-worth of the bank. Capita fund of commercial bank is divided into two categories viz. Core Capital and Supplementary Capital.

Following table shows the resources mobilized by the bank over the period of study. From the table, it was observed that the customer deposit collection contributes the major share in resource mobilization, which was more than 80%. On 2003/04 AD deposit collect was 87% of total resources. It was 88%, 89%, 89% and 89% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/06 AD respectively. The proportion of deposit collection was a bit equal however; the total amount of deposit collection was increased by substantial amount. For this study, we have segregated total sources of resources mobilization as two categories as follows:

a) From Customer Deposit Collection (Deposits)
b) From other sources than Customer Deposit (RMOD)

Table 3: Status of Resources Mobilization

Amount in Rs '000

Fiscal Year	Deposit	Borrowing	Capital Fund	Reserve Fund	Other liability	Total
2003/04	11524680	361,300	295293	433755	640269	1325497
% Share	87%	3%	2%	3%	5%	
2004/05	14254570	350,000	587,739	592,435	489,317	16274064
% Share	88%	2%	4%	4%	3%	
2005/06	18927300	550,000	590,586	824,854	437,392	21330136
% Share	89%	3%	3%	4%	2%	
2006/07	24488900	800,000	801353	1076771	423866	27590846
% Share	89%	3%	3%	4%	1%	
2007/08	34451700	1050,000	1203915	1482871	682853	38871365
% Share	89%	3%	3%	4%	1%	

(Source : NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The proportion of borrowing of the bank varied 1% to 3% during 2003/04/ AD to 2007/08 AD. From the point view of amount, it was clearly seen that the bank has first reduced the borrowing but later on it again increased the collection from borrowing fund.

This borrowing fund should be paid fixed rate of interest on the amount. The proportion of the borrowing fund was not increased even though the amount of fund was increased. It was due to the other sources of fund were also changed by proportionate percentage.

The proportion of capital fund and reserve fund collectively varied from 5% to 8% during 2003/04 AD to 2007/08 AD. It was 8% in 2004/05 AD where as it was only 5% in 2003/04 AD. Though the total amount in increasing substantially each year, due to increase in deposit collection and other resources, the proportion of capital fund and reserve fund did not change substantially.
Similarly, the proportion of other liability was 5% in 2003/04 AD. Then after it was decreasing by 3%, 2%, 1% and 1% on the year 2004/05, 2005/06, 200607 and 2007/08 respectively.

On the basis of above observation and data presentation, it could be said that, the bank has substantial fund collection from deposit collection. The bank on lateral part of the study had started to increase the public borrowing fund. This borrowing fund replaced the necessity of the capital funs. As the bank needs to increase the capital funds per the new Bank and Financial Institutions Act to meet the stated capital limit , it would be better to increase the capital fund instead of borrowing fund.

4.4.1.1Deposit Collection

Customer Deposit is the most important source of Resource mobilization of the bank. As per the data of F/Y 2007/08 AD, the contribution of customer deposit to total resource is about 89%. Deposit is collected from various sectors such as the general public; business entitles, NGOs, Schools, Trust and other individuals and institutions. Which qualify to open an account in the bank.
Deposits are collected on customers' account, which are opened as per the bank's policy. The customers' deposit accounts are to two types:

A. Interest Free Deposit Accounts

- Current Deposit A/C
- Margin Deposit A/C
- Other Deposit A/C

B. Interest Bearing Deposit Accounts

- Saving Deposit A/C
- Call Deposit A/C
- Fixed Deposit A/C

Following table shows the budgeted amount of deposit collection and the same achieved actually. Since budgeted figure for Deposit collection from F/Y 2003/04 AD to F/Y 2007/08 AD could not be available, for the study budgeted amount has been calculated using trend equation taking actual figures of the first three fiscal years as shown in Appendix 1.

Table 4: Status of Budgeted and Actual Deposit Collection

Amount in Rs. '000

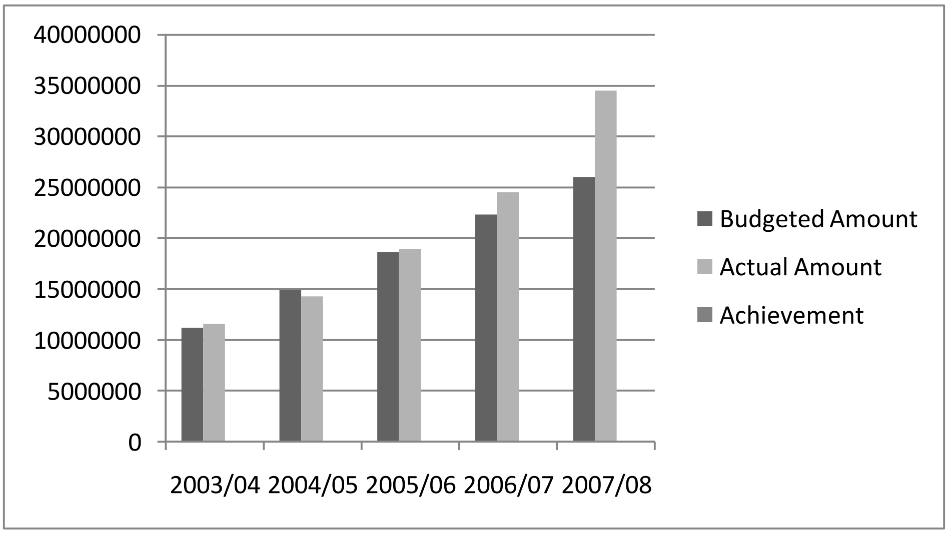
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2003/04	**11200874**	**11524680**	**102.89%**
2004/05	**14902186**	**14254570**	**95.65%**
2005/06	**18603498**	**18927300**	**1001.74%**
2006/07	**22304810**	**24488900**	**109.79%**
2007/08	**26006122**	**34451700**	**132.48%**

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

Above table shows that the Deposit collection target seemed regularly increasing . on 2003/04 AD the bank has achieved by 63.68%. Similarly, the bank has achieved by 73.33%, 69.63%, 72.53% and 80% on 2004/05, 2005/06, 2006/07 and 2007/08 AD respectively

The yearly comparative status of budgeted Deposit and actual achievements are shown in following diagram.

Figure 1: Bar Diagram of Budgeted and Actual Deposit Collection



Above figures show that the Deposit collection target seems in regular increasing trend. Similarly, in the scatter diagram, the actual is laying just overlapping budgeted. This shows the best performance of the bank in deposit collection.

None of the business is perfectly running along with the budget. there could be variance seen in actual situation. The performance of the bank was not highly fluctuated. The performance achieved by the bank showed the bank was very capable and in satisfactory level. It was the symbol that the bank was capable to consistent expansion of its business and was not of aggressive planning deposit collection.

The relationship between estimated deposit collections with the actual for the years study can be found out by using statistical tools such as arithmetic mean, standard deviation and coefficient of variation. The detail calculation of these statistical tools is shown in Appendix 2. The summary of results of the calculation in Appendix 2 is presented below:

Table5: Result of statistical analysis of deposit collection budget and achievement

Amount in Rs. 'ooo

Statistical Tool	**Budgeted Deposits (X)**	**Actual Deposit (Y)**
Mean	18603498	20729430
Standard Deviation	523446	8101847
C.V.	0.28	0.39

The above table shows that actual deposits are less variable than budgeted deposits as the coefficient of variations of actual deposit is less than that of budgeted deposits. It can be interpreted that the actual deposits are more consistent and homogeneous than budgeted deposits. A greater coefficient of variation is said to be more heterogeneous. Here NIBL's actual deposit was of more variability nature than budgeted deposit.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted deposits and actual deposits. There should be positive co-relation between budgeted deposits and actual deposits. We can take the help of Karl Pearson's coefficient of creation to find correlation between actual deposits and budgeted deposits. Karl person's coefficient of correlation is denoted by (r).By calculating (r), we can examine whether correlation between budgeted deposits and actual deposits is positive or not. The value of 'r' ranges from -1 to 1. If the value of 'r' is -1, then the relation is perfectly negative and if the value is 1then the relation is perfectly positive, whereas '0' value denote no relation at all. The actual deposit will change in the same direction, as budgeted deposits if the correlation value is near to 1. For this purpose budgeted deposits be denoted by 'x' and independent variable and actual deposits be denoted by 'y' a dependent variable upon budgeted deposits. So that increase in budget is support to increase in actual achievement or vice versa, this meant that there should be po9sitive correlation between, budgeted figure and achieved figures. Significance of correlation of (r) is tested with probable error PE.

Value of 'r' and probable error, PE is calculated in Appendix 2. The calculated value of 'r' for budgeted and actual deposit collection is 0.992. This figure of 'r' shows that there is positively perfect correlation between budgeted deposits and actual deposits and probable Error (PE) = 0.0086.

The coefficient of determination explains the change in Y variable i.e. Actual LDO by X variable i.e. Budgeted LDO and can be calculated as the square of r (r^2).
Therefore, the co-efficient of determination = $(0.992)^2$ =0.984
Since 'r' is greater than six times of probable error (0.997>6x0.0029), the value 'r' is more significant. So it is not doubtful that actual deposits will go on same direction that of budgeted deposits.

4.4.1.2 Resources Other than Customer Deposits

Resources other than customer deposits contribute to average 11.6% on total resources of the bank. This is formed with the Capital fund (The Net Worth) and the liabilities other than customer deposits.

following table shows the budgeted and actual figures of the resources under this category over the period of study. Since the budgeted figure for resources mobilization other than Deposit (RMOD) could not available, for the study the trend is calculated based on the first three fiscal years' actual figures using linear least square formula as calculated in Appendix 3.

Table 6: Status of budget and actual resources other than deposit.

Amount in Rs '000

Fiscal year	Budget Amount	Actual Amount	Achievement (%)
2003/04	1714514	1730817	100.95%
2004/05	2050837	2019491	98.47%
2005/06	2387160	2402832	100.66%
2006/07	2723483	3101990	113.90%
2007/08	3059806	4419639	144.43%

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

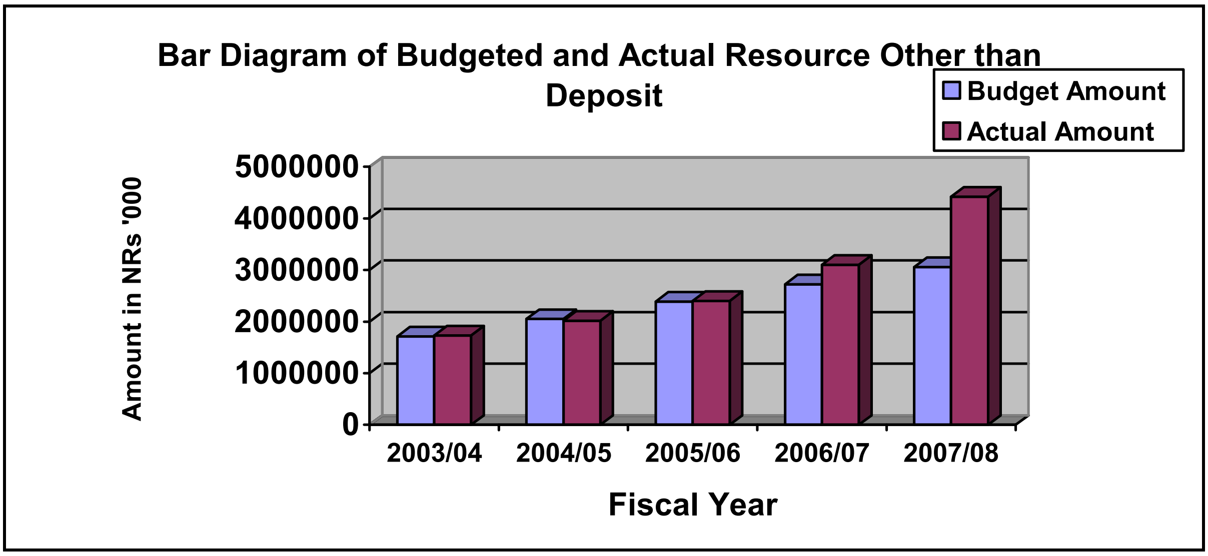
Above table shows that in the given budgeted amount, the achievement level in mobilizing the resources from other then customer Deposit was in range of 98-145% over the period. On 2003/04 AD it was 100.95% achievement level. But the achievement level on 2007/05 AD was 98.47%; it was due to decreased in the borrowing and other liability of the bank.

On 2005/06 AD It was 100.66% when the bank has increased it borrowing and reserve fund on 2006/07 AD it was 113.90% and on 2007/08 AD it was 144.43% achievement percent, these increase achievement levels in these years were mainly due to increase all resources.

In overall, the budget of bank for resource collection other then deposit was not highly floated. Hence, it could be stated that the banks budget for collection of fund from other sources was also not aggressive other than 2007/08.

The comparative status of the resources mobilized from the sources other than customer deposit is shown by the Diagram as below.

Figure 2: Bar Diagram of the status of RMOD



4.4.2 Resources Deployment

Deployment of the resources refers to the reasonable allocation of the resources for making comfortable liquidity as well as investing in income generating activities. Besides, these some investments have to be mad in fixed assets and other operating assets for the bank. The deployment of available resources can be objectively categorized as below.

1. **Deployment for liquidity:**

   This is made for meeting expected withdrawal and other kind of payments obligations of the bank. The resource for this purpose is kept in liquid from such as cash in Vault, Cash at bank etc. Generally, there is no yield on this type of deployment expecting in the case money placed in interest bearing account. The Central Bank of Nepal, NRB has instructed commercial bank to mandatory maintain approximately 10% of their total customer deposit liability as liquid from(Cash in vault and at NRB) out of which at least 5% should be deposited in account maintained at NRB. For this study, cash & Bank Balance is grouped in one deployment portfolio.

2. **Deployment for income generating activities:**

   Bank deploys the major portion of the resources is deployed for income generating activities popularly called as fund based exposure. Fund based exposure is taken by the bank following two portfolios: Loan, Discounts and Overdraft (LDO);and Other Investments. LDO includes all loans, advances, overdraft, bills purchased/discounted and other types of loans availed to the borrowers of the bank in return of which the bank earns interest income. Other investment includes investment shares, treasury bills, placement of fund on call market etc.

3. **Deployment for other assets**

   This includes the deployment of the resources toward the non yielding assets such as fixed assets, other capital expenditure subject to write off in future coerces of time, income receivable; advance payments, sundry debtors etc. Following table shows, the status of resources deployed by the bank over the period of study.

Table 7: Status of Resources Deployment by NI Bank

Amount in Rs '000

Fiscal Year	Cash & Bank	LDO net of Provision	Investment	Other Assets	Net Fixed Assets	Total
2003/04	1226923	7338566	3862483	476177	249788	13153927
% Share	9%	56%	29%	4%	2%	
2004/05	1346481	10453164	3434189	202226	320592	16250652
% Share	8%	64%	25%	1%	2%	
2005/06	2335521	12178125	5602869	201090	343450	21661055
% Share	11%	61%	25%	1%	2%	
2006/07	2441514	17769100	6505680	234797	759456	27710547
% Share	9%	64%	23%	1%	3%	
2007/08	3754942	27259205	6874024	277597	970092	39135960
% Share	10%	69%	18%	1%	2%	

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The table shows the deployment of the bank resources at various portfolios. The cash and bank hold 9%, 8%, 11% and 10% proportion of total assets on 2003/04 AD, 2004/05AD, 2005/06 AD, 2006/07 AD and 2007/08 respectively.

Though the proportion did not change significantly, the amount of cash and bank has been changed significantly each year due to increase in deposit collection and the requirement as per the guideline issued by NRB.

The LDO was the major area for deployment of resources of the bank, and it held the largest outlet about 60% of total resources deployment. In on 2003/04AD, 2004/05AD, 2005/06 AD, 2006/07 AD and 2007/08 AD, it held 56%, 64% 61% 64% and 69% respectively of total resources deployment of the bank. Due to increase in deposit collection, the bank had to find the new investment area for the deployment of resources.

The second stands to investment about 25% of total deployment. The bank has been investing mainly the shares of different limited companies including the bank and financial institutions a its area for investment. On 2003/04 AD, 2005/05 AD, 2005/06 AD, 2006/07 AD, 2007/08 AD, the bank had invested 29% , 25%, 25%, 23% and 18% respectively of the total resource deployment. The proportion did not change significantly but the amount of investment had been changed significantly in each year.

The proportion of other assets of the bank in total deployment of resources was 4% on 2003/04. The other assets of the bank in2007/08 AD were decreased substantially than 2003/04 AD, and goes down about 1% only.

Net fixed assets of the bank were around 2% where on 2006/07 it was around 3% of total deployment.

The total amount of net fixed amount had been increasing in each year but substantial effect on resources deployment was not been seen.

From above analysis, it could be said that the bank has increasing deployment of resources significantly. As all the deployment areas were increasing about equal rate, the proportion of these deployment areas remained a little bit unchanged. The bank could able maintained to balance the cash and bank balance within limit prescribed by NRB guidelines of at least of 10% of deposit collection.

In this study, we have segregated the deployment into following two categories:

- Deployment in LDO (LDO)
- Deployment in other sector than LDO (NLDO)

4.4.2.1 Deployment in LDO

Following table shows the budgeted amount of LDO and the same achieved actually before netting to loan provision. Since budgeted figure of LDO for the study period, hence the budgeted figure is calculated using linear trend forecast equation based on actual LDO of the first three years as calculated in Appendix 4

Table8: Status of Budgeted and Actual Deployment for LDO

Fiscal Year	|Budgeted Amount	Actual Amount	Achievement
2003/04	7403501	7338566	99.12%
2004/05	10323294	10453164	161.36%
2005/06	13243087	13178152	99.51%
2006/07	16162880	17769100	109.93%
2007/08	19082673	27529305	144.26%

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

From the above data presentation, it was observed that the achievement level of deployment of LDO was 99.12% in 2003/04 AD. On 2004/05 AD it was 101.23% of the estimated budget. The actual LDO on 2005/06 AD was 99.52% of estimated budget LDO. Similarly, on 2006/07 AD it was 109.95% and on 2007/08 it was 144.25% estimated budget.

From the analysis, it could be stated that the bank LDO achievement level was somewhat liberally increased. The average achievements on the budgeted figure is above 100% level

From the variance analysis of LDO of the budget, the bank has exceeded the budget limit in 2004/05 AD and 2005/06; hence the bank could revise the LDO budget system. Further, the amounts of the bank LDO were substantially increased in each year and the bank could success to achieve the budget target. This implies the bank LDO budget system was efficient and effective for management.

Figure 3: Bar Diagram of Budget and Actual LDO

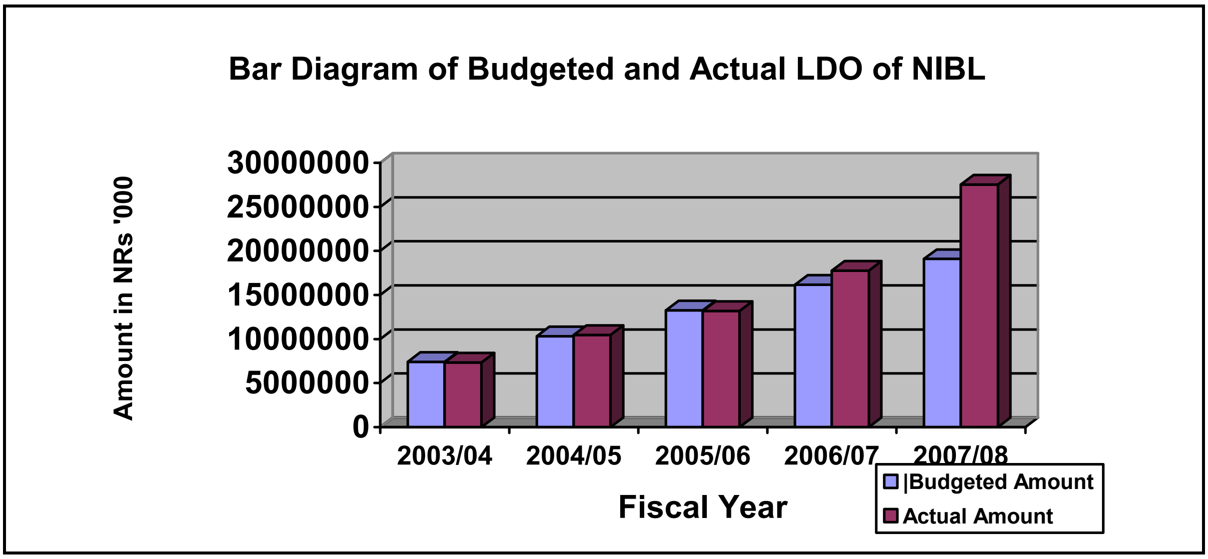
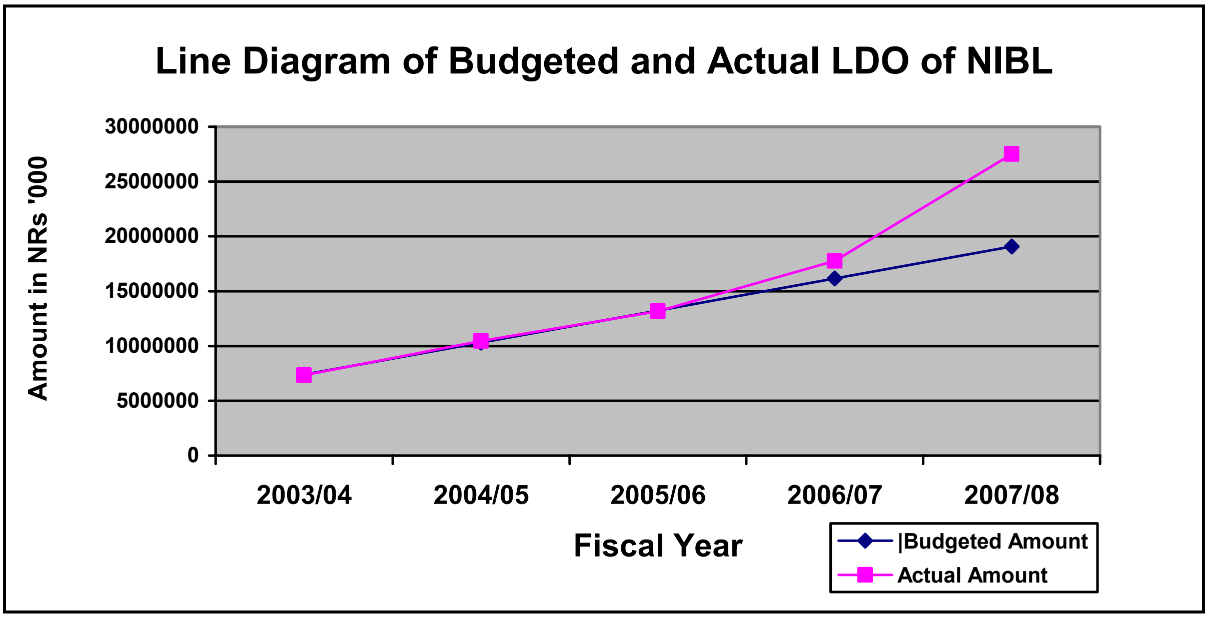


Figure 4 Line Diagram of Budgeted and Actual LDO of NIBL



The status of LDO is presented in the Bar Diagram and Scatter Diagram as below:

In figure no 4 and 5, the actual figure is just lying above the budget figure. This is the indicator that the bank is perfectly operating to meet the business budget prepared based on business plan.

We could find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools that is arithmetic mean standard deviation and coefficient of variation. The detail calculations of these statistical tools are shown in Appendix 5.

The following table present the summery of the result from Appendix 5.

Table 9: Result of Statistical analysis of the LDO budget and achievement.

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	13243087	15253657
Standard Deviation	5839586	12023186
C. V.	0.441	0.788

The above table shows that actual LDO are more variable than targeted LDO. Since the coefficient of variations of actual LDO is greater than the targeted LDO, actual LDO are of nature that is more variable. On the other hand budgeted LDO are more consistent and homogeneous than actual LDO. A greater coefficient of variation is said to be more heterogeneous. Here NIBL's actual LDO is the nature of more variability than budgeted LDO.

From Appendix 5, the calculated value of Karl Pearson's correlation coefficient of 'r' is 1.00 and PE=0.00 This figure of 'r' shows that there is nearly positively perfect correlation between budgeted LDO and actual LDO .The value of 'r' is more significant. Therefore, it is not doubtful that actual LDO will go on same direction that of budgeted LDO. The calculated coefficient of determination = $r^2 = (1)^2 = 1$

4.4.3 Actual Deposit Collected Vs Actual Status of NIBL

As it is understood that the major source of resources mobilization of NIBL is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advances and bills discounts, overdrafts (LDO), it is desirable to analyze the comparative status of the same for the study period.

Following table shows the actual balance of customer deposit collected by the bank and actual position of deployment towards LDO and the ratio of LDO to Deposit (CD Ratio) for the corresponding fiscal year.

From the table it was observed that the LDO to Deposit ratio was between 63 to 80%. The average CD ratio over the period of the study was 71.83%. This implied that the bank was able to lend to customer from the deposit collection from the customer to the extent of average percentage of 71.83%.

Table 10 : Status of LDO versus Actual Deposit NIBL

Fiscal Year	Actual Deposit Balance	Actual Outstanding	LDO to Deposit Ratio
2003/04	11524680	7338566	63.68%
2004/05	14254570	10453164	73.33%
2005/06	18927300	13178152	69.63%
2006/07	24488900	17769100	72.53%
2007/08	34451700	27529305	80%

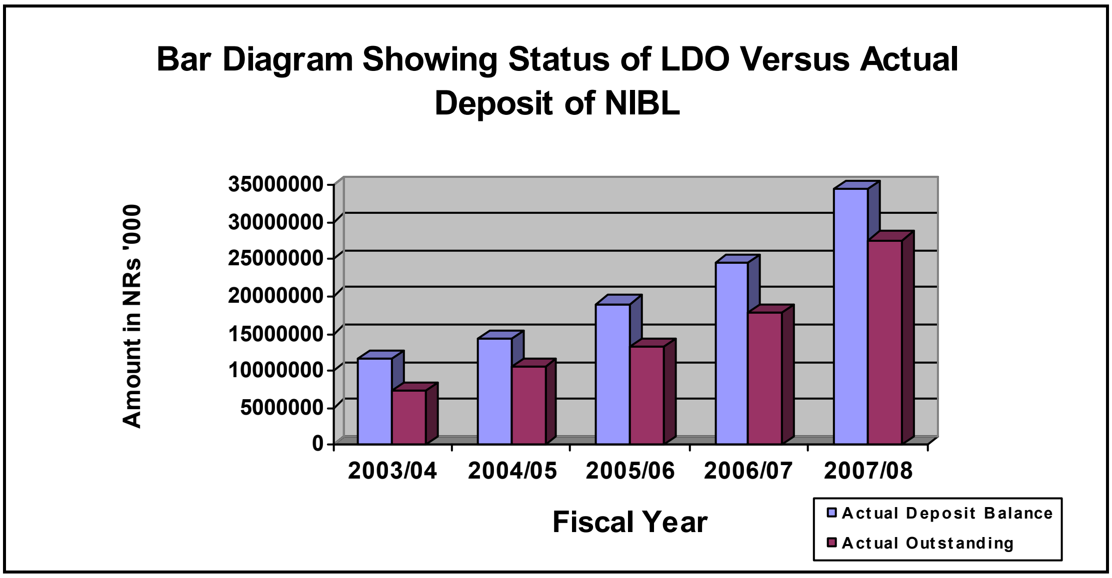
(Source NIBL Annual Reports)

Here, the bank acts as intermediary for its customers. On 2003/04 AD the Credit Deposit ratio was 63.68%. It was increased to 73.33% in 2004/05 AD. Again it was decreased to 69.63% on 2005/06 and increased to 72.53 on 206/07 AD. On 2007/08 AD the Credit Deposit ratio was 80%.

From the above result, it could be said that the bank was succeeded in real banking business, as it was able to use around 70% of its resource collection from customers. The bank had focused both in collection of resources and application of collected resources in the income generating investment.

Below graph shows, that both the actual deposits and actual outstanding LDO were in increasing trends.

Figure 5: Bar Diagram showing Status of LDO versus Actual Deposit



It is important to analyze the relationship between outstanding deposit and outstanding LDO. In order to find out the variability of actual deposits and actual outstanding LDO of coefficient of variation technique.

The detail calculations of these statistical tools are presented in Appendix no. 7. Following table shows the summary of the result of Appendix.

Table 11: Result of statistical analysis of actual deposits & actual LDO.

Amount in Rs. '000

Statistical Tools	Actual Deposit (X)	Actual LDO (Y)
Mean	20729430	15253657
Standard Deviation	8152708	7028799
C. V.	0.447	0.461

Since, the coefficient of variation of actual outstanding LDO is higher than that of actual outstanding deposits. The actual outstanding LDO are more variable than actual deposits.

The calculated Karl Pearson's Coefficient 'r' is 0.994 and probable error is 0.0063. The value of r as tested with PE shows about perfect correlation between deposit and lending. It should be exist this other wise the bank faces the different type of problems like inadequate funds, excess bolding of funds etc.

Since r>6*PE (0.994>6*0.0063), the value of 'r' is significant. There is perfect correlation between actual deposits and actual LDO.

4.4.4 Non-Funded Business Activities

Main Non-Funded income generating businesses of NIBL are following.

Letter of Credit Business Person

Bank guarantee Business Person

Since, these are the contingent liabilities; these are not part of outside Balance sheet. Normally, these liabilities are presented below the Balance Sheet. These contingents are accounted only when there is such happening, which supports to actual liability occur to the bank.

4.4.4.1 Letter of Credit

Letter of credit is kind facility provided by the bank to their customer, by way of which the customer can import the goods from foreign buyer for which the bank undertake the guarantee for payment provided the terms and condition to the L/C is complied with.

Following table shows the Letter of Credit business status of the bank as of the closing of the respective fiscal year and the its growth over the period of this study.

Table shows, that the Letter of Credit outstanding was increased by 270% in 2002/03 AD than 2003/04 AD. On 2003/04,it was increased by 23.85% amounting to increase of Rs. 426,216 thousand. On 2004/05 AD, it was reduced by 17.91% whereas on 2005/06 it was again increased by 25.09% amounting to increase of Rs. 455.800 thousand.

Table 12 Growth of L/C Business of NIBL

Fiscal Year	**Outstanding L/C Amount**	**Increased Amount**	**Growth (%)**	**L/C Margin Deposit**	**% Security**
2003/04	2213253	-	-	241,884	9.71%
2004/05	1816959	(396,294)	-17.91%	244,874	13.48%
2005/06	2272758	455,800	25.1%	141,460	6.22%
2006/07	3955491	1682733	74.0%	203466	5.14%
2007/08	4223147	267656	6.77%	409194	9.69%

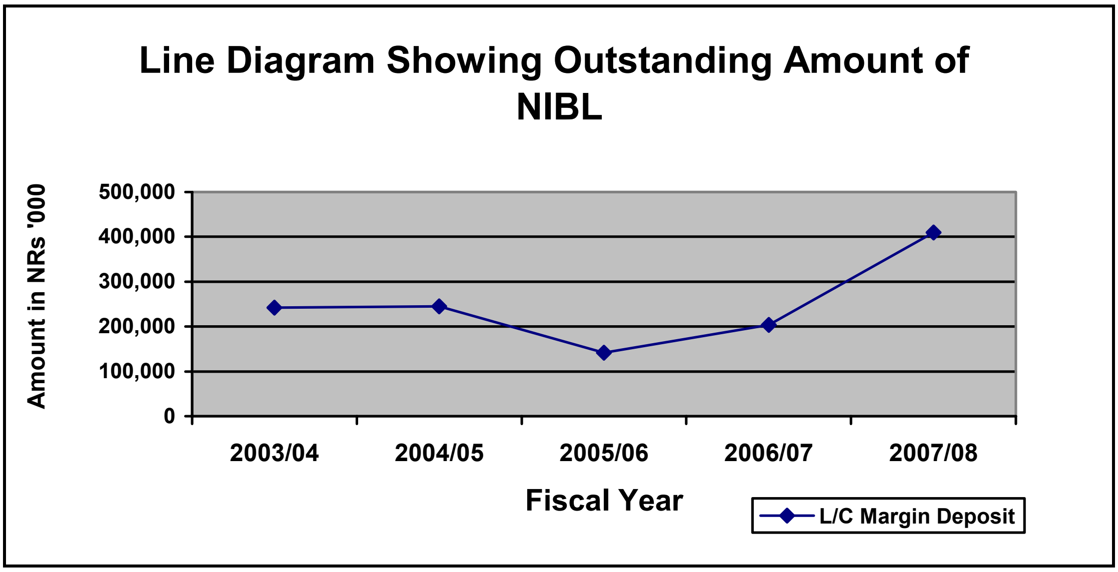
(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The increase/decrease in L/C issue normally depends on the country's Import and export business. As the fund Is not involve in L/C issue, the higher the amount of L/C outstanding, more the income the bank could earn without having fund. However, this transaction Is risky one. The true obligation for payment by the bank only arises when the customer default the payment to the creditor. However, such case is found very rare.

The bank has the policy to take margin amount for issuance of L/C. The above table shows that the margin collected by the bank varies in year to year. In 2003/04 AD. The L/C margin deposit was 9.74% of the total outstanding L/C at the year-end. It was 13.48% in 2004/05 AD and 6.22% in 2005/06 AD. Similarly, it was 5.14% in 2006/07 AD whereas; it 9.69 in 2007/08 AD.

Based on the analysis, it could be said the L/C business of the bank was fluctuated each year. The bank should try to regularize this business. The trend of L/C business of the bank was fluctuated each year. The bank should try to regularize this business. The trend of L/C business of the bank is presented in the diagram follows:

Figure 6: Line Diagram showing outstanding L/C amount



4.4.5 Expenditure Planning of Nepal Investment Bank

Planning for expenses is the most essential to maintain reasonable levels to support the objectives & planned programs of the bank. Expenses planning focus on the relationship between expenditure & the benefits derived from these expenditures. NI Bank has started preparing Expenditure and Revenue budget since its establishment.

The following table shows the status of Expenditure incurred by the bank for the study period.

Table 13: Yearly Cost Structure of Nepal Investment Bank

Amount in Rs. '000

Expenses Head	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
Interest Expenses	326202	354549	490947	685,530	992158
% Share	42.86%	38.81%	44.19%	45.75%	48.36%
% Increase	-	8.69%	38.47%	39.63%	44.73%
Employees Expenses	89749	97004	120664	145371	187150

% Share	11.79%	10.62%	1.86%	9.70%	9.12%
% Increase	-	8.08%	24.39%	20.47%	28.74%
Office Overhead Expenses	149,474	182,915	190,605	243,431	313,154
% Share	19.64%	20%	17.16%	16.25%	15.26%
% Increase	-	22.37%	4.20%	27.72%	28.64%
Provision for Loss	91,092	140,409	103,808	129,719	135,989
% Share	11.97%	15.37%	9.34%	8.66%	6.63%
% Increase	-	54.14%	-26.07%	24.96%	4.83%
Provision for staff bonus	25,719	37,075	50,491	72,338	101,996
% Share	3.86%	4.2%	4.5%	4.80%	4.97%
% Increase	-	44.15%	36.19%	43.27%	41%
Provision for Income Tax	78,801	101,529	154,378	221,977	321,288
% Share	10.36%	11.11%	13.95%	14.84%	15.66%
% Increase	-	28.84%	152.05%	43.79%	44.74%
Total Expenses	761,042	913481	1110897	1498366	2051735

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The above table shows that the each type of expenses each year is in increasing trend except provision for loss. Interest expenses proportion is about 44% of total expenses with a little increasing proportion trend. In 2003/04 AD the proportion share of interest expenses was 42.0%. It was in 2004/05 AD with increase in amount of 8.69% than previous year. In 2005/06 AD the proportion was 44.9% in 2006/07 AD was 45.75% and 2007/08 was 48.36% and corresponding percentage increase in amount was 38.47%, 39.63% and 44.73 respectively. The sharp fall in increase in expenses in 2004/05 AD was due to fall in deposit collection. The increase and decrease in interest expenses would be affected accordance of the deposit collection amount during the year. Along with the increase in the deposit collection, the interest expenses have been increased. The main reason could be the high increase in deposit collection from the customers.

Similarly, employee's expenses proportion to total expenses was 11.75% in 2003/04 AD. It was 10.62% in 2004/05 AD with percentage increase in amount by 8.08% than previous year. The proportion in 2005/06 AD was 10.86% in 2006/07 AD was 9.70% and on 2007/08 AD was 9.12% with percentage increase in amount of 24.39%, 20.47% and 28.74% respectively. The sharp fall in increase in employee's expenses in 2004/05 AD was due to the bank had recruited only 27 new employees in that year resulting to increase to 352 from 325. The increase in cost of employees was mainly due to company's policy to regular increase in salary every year to the existing staffs with certain percentage and additional new staff on expansion.

The proportion of office overhead expenses was 19.64%, 20%, 17.16%, 16.25% and 15.26% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively. the percentage increase in amount of overhead expenses was 22.37%, 4.20%, 27.72% and 28.64% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD than previous year respectively. The increase in overhead expenses was mainly due to the expansion of the bank with new branches and increase in office materials.

The proportion of provision for loss was 11.97%, 15.37%, 9.34%, 8.66%, and 6.63% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively. In 2005/06 AD there was 26.07% decrease in provision of loss due to recovery of bad loan but it was increased by 24.96% in 2006/07 AD,. In 2007/08 AD it was decreased by 4.83%

The proportion of provision for staff bonus was 3.38%, 4.10%, 4.50%,4.80% and 4.97% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively. The percentage increase in amount of provision of staff bonus was 44.15%, 36.19%, 43.27% and 41.19% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively than the respective previous year. The staff bonus is based on the net profit of the bank hence it varied each year as the bank's profit varied each year.

Further, the tax expense is also based on the net profit of the bank. the proportion of provision of income tax was 28.84%, 52.05%, 43.75% 44.74% increasing in 2004/05 2005/06, 2006/07 AD and 2007/08 AD respectively.

4.4.5.1 Interest Expenses to deposit Collection

Interest expenses are the expenditure incurred for making payment of interest to the deposit collected by the bank. As the customer deposit holds a major share on total resources of the bank, interest expenses is also highest among others in total expenses of the bank.

The customer deposit is one of the major sources for resources mobilization by the bank. There are various kinds of deposit accounts from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the bank. For a bank, lower COD refers to better position in terms profitability.

Now we can analyze the interest expenses to total deposit mobilized by the bank in following table:

Table 14: Yearly Status of Interest Expense to Total Deposit (Cost of Deposit)

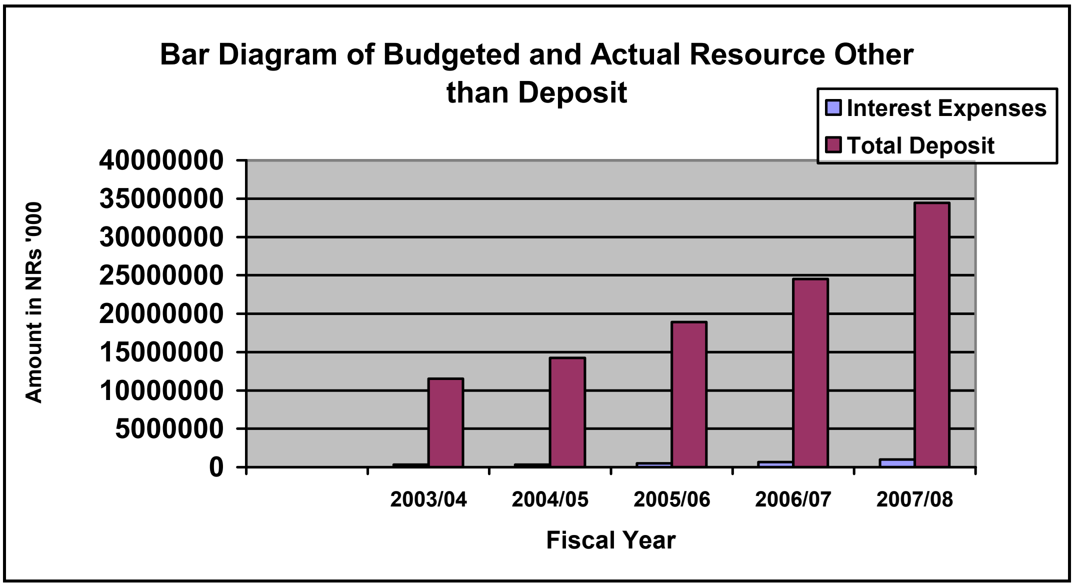
Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit
2003/04	326202	11524680	2.83%
2004/05	354549	14254570	2.49%
2005/06	490,947	18927300	2.59%
2006/07	685,530	24488900	2.80%
2007/08	992,158	34451700	2.88%

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

From above table, it was observed that the cost of deposit was 2.80%, 2.49%, 2.59% 2.80% and 2.88% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively.

The reason for fluctuation on cost of deposit was due to the bank policy to collect the deposit with low interest rate. The bank has maintained less minimum cost of deposit. The average COD for the period of this study was 2.72%.

Figure 7: Bar Diagram showing Status of Interest expenses to Total Deposit



It is significant to analyze the relationship between deposits and Interest expenses. The figures of actual deposits amount and Interest expense amount can be presented in tabular from. In order to find out the variability, of actual deposits and actual Interest expenses of different years we have to calculate arithmetic mean, standard deviation, coefficient of variation technique and correlation of coefficient. The detail calculations of these statistical tools are presented in Appendix no. 8 . Now summarizing the results from Appendix 8, we have,

Table 15: Result of statistical analysis of Actual Deposit and Interest Expenses.

Amount in Rs '000

Statistical Tools	Actual Deposit (X)	Actual LDO (Y)
Mean	20729430	569817
Standard Deviation	8152708	246495
C. V.	0.393	0.433

The above result shows the coefficient of variation of actual outstanding deposit is higher than of actual interest expenses; hence, the actual outstanding deposit is more variable than actual interest expenses incurred.

The calculation of Karl Pearson's coefficient of correlation between actual deposit (X) and actual interest expenses (Y) is arrived to 0.994 and PE is 0.0065 from Appendix 8. Since r>6*PE, correlation coefficient is significant and there exist the positive correlation between deposit and actual interest expenses incurred. Further, the coefficient of determination (r)2 = (0.994)2 = 0.988, which explains the change in Y variable i. e. interest expenses by X variable i.e. deposit.

The status of total deposit and the COD is shown in the Bar Diagram as below.

4.4.5.2 LDO verses Loan Loss Provision

As per the directives of Nepal Rastra Bank, the commercial banks are required to set aside some amount from their operating profit at a fixed ratio against the outstanding LDO of the bank as prescribed by the NRB from time to time. Such amount provided by the bank against the loan is called loan loss provision. The ratio of the loan loss amount against the LDO is based on the classification of the loans. As per NRB current directives, banks are required to classify their outstanding LDO on the basis of aging into four categories and the amount of provisioning that have to be made with effect from F/Y 2063/64 BS which are as follows.

Pass: Advances include in this category are those loan accounts which are within the validity or past due up to a period of three months. Amount of loan loss to be provided fro is 1% of the outstanding loan failing under this category.

Substandard: All loans and advances those are past due for a period of three months to six months shall be included in this category. The required provisioning is 25% of the outstanding loan falling under this category.

Doubtful: All loan and advances those are past due for a period of more than six months to one year are included in this category and require provisioning of 50% of outstanding LDO falling under this category.

Loss: All loans and advances those are past due for a period of more than one year, are included in this category which shall to be provided for 100% of the LDO falling under this category.

All classified loans except 'Pass' are called non-operating loan. the higher amount of non-performing loan consumes the profit of the bank, as they require higher amount of provisioning toward loan loss. Therefore banks have to make reasonable effort for regularizing their loans to keep them performing in order to reduce the amount of loan loss provisioning and thereby enhancing the profitability. Further, internationally accepted standard rate of percent for total loan loss provision to total loan is as 35%.

Now, we analyze the loan loss provision to total LDO mobilized by the bank in following table and diagram.

Table 16: Yearly Status of Loan Loss Provision to Total LDO.

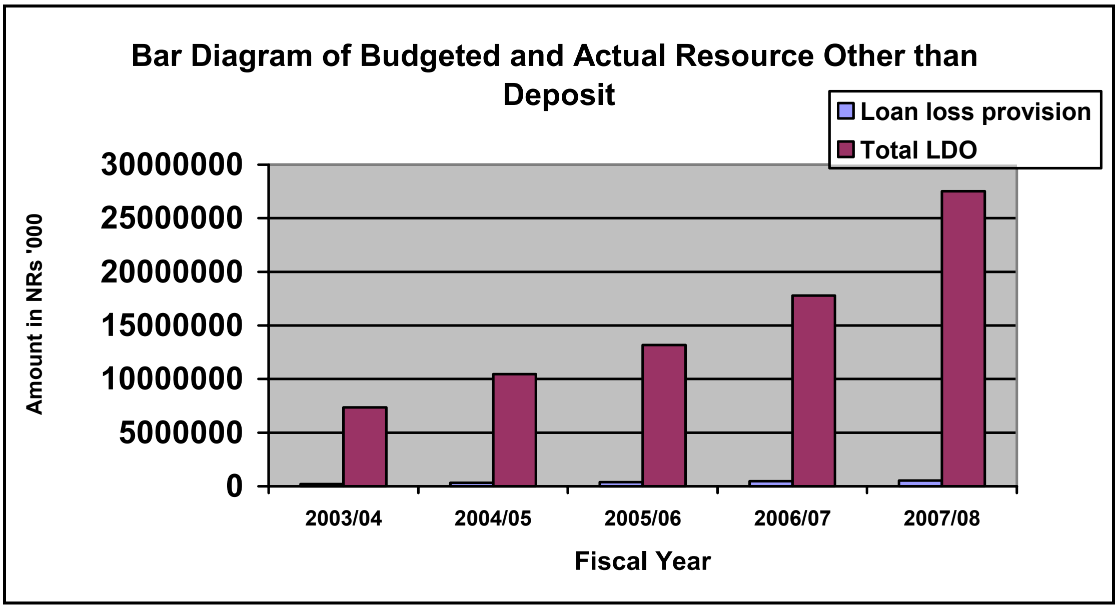
Amount in Rs '000

Fiscal Year	Loan loss provision	Total LDO	Loan Loss Provision to LDO
2003/04	208441	7338566	2.84%
2004/05	327108	10453164	3.13%
2005/06	401944	13178152	3.10%
2006/07	482673	17769100	2.72%
2007/08	532652	27529305	1.93%

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The above tale and diagram, it was observed that the percentage of loan loss provision to total LDO was 2.84%, 3.13%, 3.10%, 2.72% & 2.93% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 respectively.

Figure 8 Bar diagram-showing status of Loan Loss Provision to Total LDO



(Source : NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The total provision on loan loss of the bank is near to the international accepted rate, the bank needs further reduction of loan loss provision and it could be possible only recovery of old loans.

4.4.6 Revenue Planning of Bank

Bank generates its revenue from its income earning activities. Such activities are mostly fund-based, that is generated out of the deployment of fund, and some portion from non-fund based business activities. Income of Bank can be broadly categorized into two types viz. Interest income and other income. Interest income is the interest earned from loan advances and overdraft provided to the borrowers, investments in Government bonds etc. interest income holds major share in total portfolio of the bank. Other income consist the income other than interest income, which are as follows;

- Income from Commission & Discount
- Dividend received from Investment in Shares
- Income from foreign Exchange Transaction
- Various kinds of Service Fees and Charges

Table 17 : Yearly Income Structure of Bank

Amount in Rs '000

Revenue	2003/04	2004/05	2005/06	2006/07	2007/08
Interest Income	731,403	536,800	1172742	1584987	219876
% Share	80.05%	79.56%	80.84%	82.00%	82.84%
% Increase	-	21.25%	32.24%	35.15%	38.44%
Commission & Discount	55,474	93,551	115,942	163899	215292
% Share	6.10%	8.93%	7.99%	8.84%	8.13%
% Increase	-	67.81%	23.93%	41.36%	31.36%
%(operating) Income	36816	25576	35902	47318	66377
% Share	4.03%	2.29%	2.47%	2.45%	2.51%
% Increase	-	-30.53%	40.38%	31.80%	40.28%
Foreign Exchange Income	87,980	102518	125747	135355	165839
% Share	9.63%	9.20%	8.67%	7%	6.26%
% Increase	-	16.52%	22.66%	7.64%	22.52%
Loan Operating Income	1768	6192	391	1426	7048
% Share	0.19%	0.55%	0.03%	0.07%	0.27%
% Increase	-	250.23%	-93.69%	264.70%	394.25%

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

The table 19 shows that the revenues were increasing each year. Income from interest was the highest among the others in total revenue for each year. The proportion of interest income is about 81% of total revenue. It is increasing in diminishing rate but the proportion is in increasing rate.

The proportion of interest income was 80.05%, 79.56%, 80.84% 82.00% and 82.84% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 respectively. The percentage increase in amount of interest income was 21.25%, 32.24%, 35.15% and 38.44% in 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 respectively than the respective previous year.

The interest income is based on the amount of outstanding LDO during the year. As the bank's LDO amount was increasing each year, the interest income amount was also increasing each year.

Commission & Discount and Foreign Exchange Income are nest to interest income for contributing in total revenue. the proportion of commission and discount was 6.10%, 8.39, 7.99%, 4.8% and 8.13% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 respectively. Commission and Discount income was highly increased by 67.18% in 2004/05 AD. It was due to high increase in guarantee business by 93.61% in 2004/05 AD. Then it was 23.93%, 43.36% and 31.36% on 2005/06, 2006/07 and 2007-08 respectively.

Similarly, the proportion of Foreign Exchange income was 9.63%, 9.20%, 8.67%, 7% and 6.26% in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively. The change in percentage of proportion was mainly due to change in amount of other income contributing items. The increase and decrease in commission and discount amount is based on the amount of L/C and B/G issuance.

Other operating income and non-operating income are the contributors of total revenue in very negligible proportion.

4.4.6.1 Interest Income to LDO

As interest income contributes the major portion of Total Revenue mix, this study attempts to analyze the interest income amount with other relevant date. Interest income is generate out of the loan and advances made by the bank. Therefore, this is proudly called Yield of Fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, we have grouped the outstanding loan, advances and overdraft and the bills discounted together to call LDO and have included the bills discounting commission to into the total interest income amount (YOF). Now, we shall analyze the comparative status of total YOF with the total LDO with the help of following table and bar diagram.

Table 18: Status of Interest Income to Total LDO.

Amount in Rs, '000

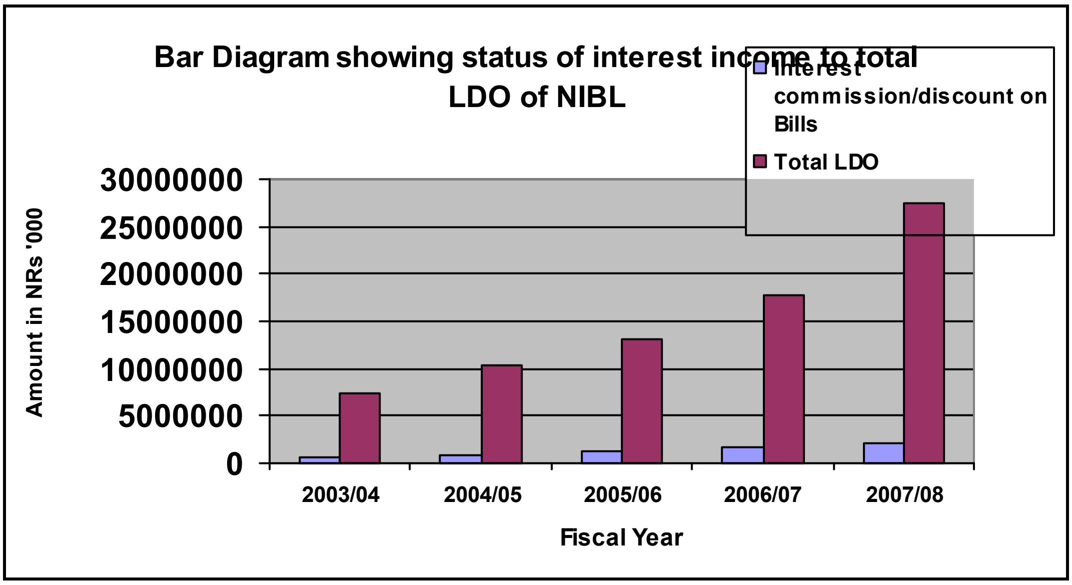
Fiscal Year	Interest commission/discount on Bills	Total LDO	Yield on LDO
2003/04	721403	7338566	9.97%
2004/05	886800	10453164	8.48%
2005/06	1172742	13178152	8.90%
2006/07	1584987	17769100	8.92%
2007/08	2194276	27529305	7.97%

(Source : NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

From Table 20, it was observed that the yearly YOF of NI Bank ranges from 7.97% to 9.97% in various years. The yield on LDO was 9.97% in 2003/04 AD where as it was 7.97% in 2007/08 AD. The decrease in yield was mainly due to decrease in interest rate. In 2004/05 AD it was 9.48%, in 2005/06 AD was 8.90% and in 2006/07 AD was 8.92%. The average YOF for the period is study is 8.85% where as cost of deposit was 2.72%. Hence the bank has adequate margin.

The actual LDO and interest income earned can also be presented in diagrams as below.

Figure 9 Bar diagram-showing status of Interest Income to Total LDO.



Above diagram shows both actual LDO & Interest income are in increasing trend.

It is significant to analyze the relationship between outstanding LDO and interest income (YOF). The figures of LDO amount and Interest expense amount have been presented in tabular form above. In order to find out the variability, of actual LDO and actual interest income of different years we have to calculate arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient. The detail calculations of these statically tools are presented in Appendix no 9. Now summarizing the results from appendix, we have,

Table 19: Result of statistical Analysis for Actual LDO and Interest Income.

Amount in Rs, '000

Statistical Tools	Actual LDO (X)	Actual LDO (Y)
Mean	1525367	1314478
Standard Deviation	702880	393457
C. V.	0.460	0.229

The above results shows that the coefficient of variation of actual outstanding LDO is higher than of interest income, which means actual outstanding LDO are more variable than interest income. Another statistical tools, correlation of coefficient can be used to analyze the relationship between actual outstanding LDO and Interest income.

The Karl Pearson's coefficient of correlation is calculated 0.995 and PE 0.00543. Since r>6 PE (o.995>6*0.00543) the value of 'r' is significant and there is perfect correlation between actual deposit s and actual LDO.

The coefficient of determination =r2 = (0.995)2 = 0.990 which explains the change in Y variable i.e. interest income by X variable i.e. LDO.

4.4.7 Interest Spread

Interest spread is the difference amount obtained by subtracting total interest expenses amount from the total interest earned. In the other words, it is the margin on interest or net interest income of the bank.

Following table and figure give the status of interest income, expenditure and spread of the bank for the study period.

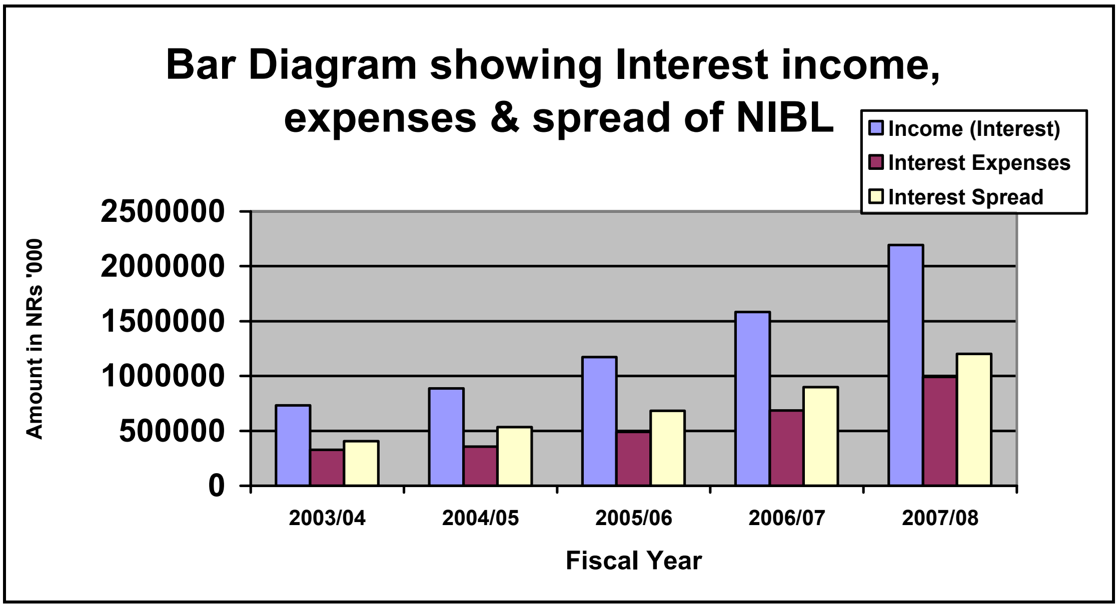
Table 20:Yearly spread of Bank.

Amount in Rs, '000

Fiscal year	Income (Interest)	Interest Expenses	Interest Spread	Growth	%Growth
2003/04	731403	326202	405201	-	-
2004/05	886800	354549	532551	127050	31.35%
2005/06	1172742	490947	681795	149544	28.10%
2006/07	1584987	685530	899457	217662	31.92%
2007/08	2194275	992158	1202117	302660	22.53%

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

Figure 10 : Bar Diagram showing Interest Income, Expenses and Spread.



From the table 22, it was observed that in 2003*04 AD the spread of the bank was RS 405201 thousand, It was Rs 532251 thousand in 2004/05 AD and increased by 31.35% than previous year. Similarly, it was Rs 681795 in 2005/06 AD, Rs 899457 thousand in 2006/07 AD and Rs 1202117 thousand in 2007/08 AD and was increased by 28.10% 31.92% and 22.53% respectively than the respective previous year. Further, above diagram and table show that the interest spread is in increasing trend.

It was observed that spread of the bank were positive interest spread. The spread was increasing trend. This proves the bank has sufficient income to pay the interest of deposit collected from the customers and extra balance to pay employees costs, operating costs, to pay capital providers etc. The interest spread in increasing in amount with reducing rate of growth.

4.4.8 Burden

Burden is the overall expenses of the bank except of the bank expenses incurred for the payment of deposit interest. That is, the operating cost of the bank except interest cost is called the burden. The net burden is the net amount of burden cost obtained which is the difference between other expenses and other income. The nature of this cost is semi fixed where as interest cost is variable cost. The following table shows the status of net burden in the bank over the period of the study.

Table 21: Burden of Bank

Amount in Rs.'000'

Fiscal Year	other Expenses	other income	Net Burden	Growth	% Growth
2003/04	434,841	182311	252,530	-	-
2004/05	558,932	227,836	331,096	78,566	31.11%
2005/06	619,946	777,982	341,964	10,868	3.28%
2006/07	812,836	347,998	464834	122,874	26.43%
2007/08	1059,577	454,556	605,021	140183	30.16%

Source : NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

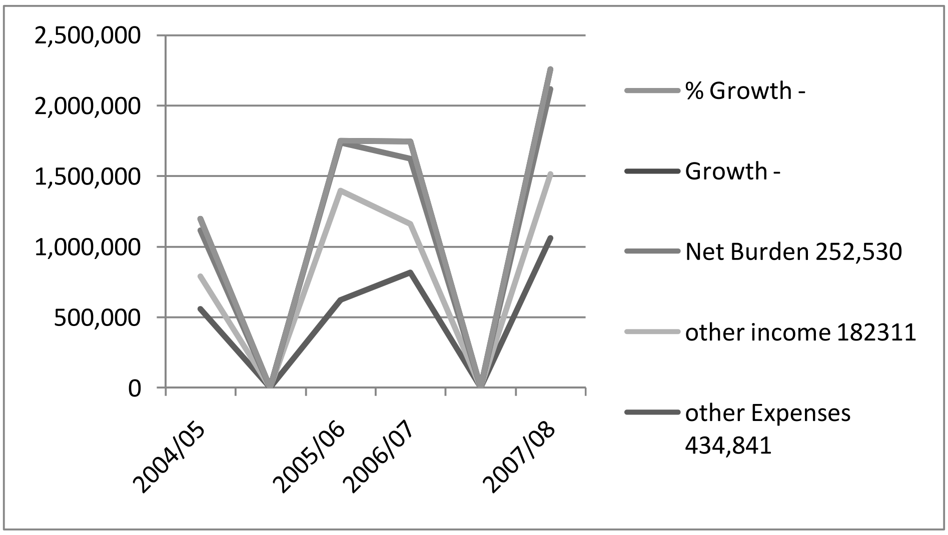
From the table it was observed that the burden of the bank is 2003/04 AD was Rs 252530 thousand. It was Rs. 331096 thousand on 2004/05AD which was increased by 31.11% than previous year. Similarly, the burden was Rs 341964 thousand, Rs. 464838 thousand and 605021 thousand in 2005/06 AD, 2006/07 AD and 2007/08 AD respectively and increased percentage was 3.28%, 26.43% and 30.16% respectively than the respective previous year.

The growth amount of net burden of the bank was Rs78566, 10868, 122874and Rs. 140183 on 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively.

It was observed that the net burden of the bank was positive hence, it lowered the net profit from interest spread. The net burden of the bank was increasing each year but with decreasing rate.

Further, the diagram showed increasing trend of net burden in slightly curve to downwards.

Figure 11: Line Diagram sowing Other Expenses, Income and Net Burden



4.4.9 Net Profit

Profit is excess of income over expenses. In this study has calculated the net profit being the excess spread over the net burden. Spread is the net interest (excess interest income over the interest expenses) amount from other expenses and other income.

Following table and graphs shoes the status of Spread, Burden and Net profit of various year of the study.

Table 22: Yearly Net Profit status of bank

Amount in Rs.'000'

Fiscal Year	Spread	Burden	Net profit	Growth	% Growth
2003/04	402501	252530	149971	-	-
2004/05	532251	331096	201155	51184	34.13%
2005/06	681795	341964	339831	138676	68.99%
2006/07	899457	464838	434619	94788	27.89%
2007/08	1202117	605021	597096	162447	37.38%

(Source: NIBL Annual Reports of Fiscal Year 2003\04 AD to 2007\08 AD)

From the table 24, it was observed that net burden of the bank in 2003\04 AD were only Rs. 149971 thousand. It was increased to RS. 201155 thousand on 2004\05AD with increased percent of 34.13%than pervious year. Similarly, it was RS. 339831 thousand,Rs 434619 thousand and RS. 597096 thousand in 2005\06 AD, 2006\07 AD and 2007\08 AD respectively with growth percent of 68.93% , 27.89% and 37.38% respectively than the respective previous year.

Following diagrams 15 and 16 further clarify the banks net profit position. We could clearly distinct the gap between spread and burden in widely increasing in the expansion of its business. The net profit region is highlighted in the diagram.

Figure 12: Bar Diagram showing Annual Net Profit

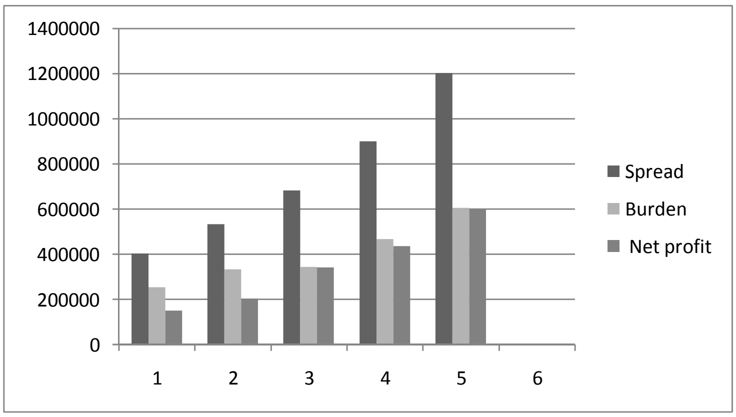
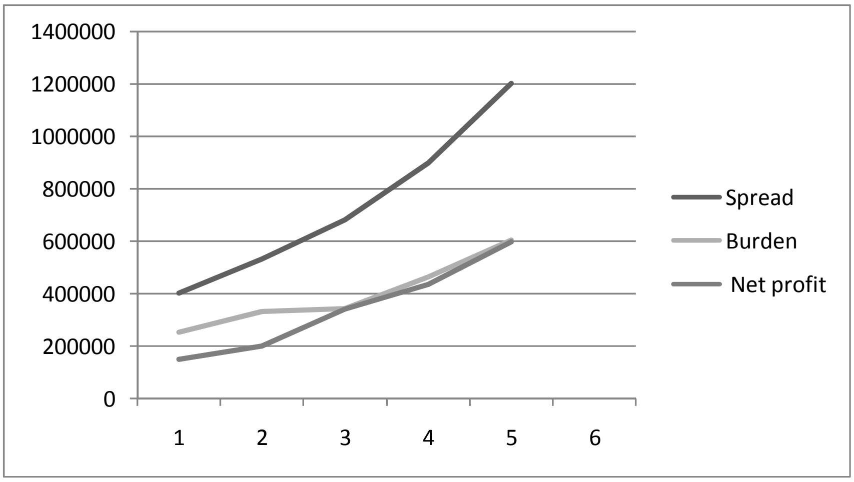


Figure 13: Line Diagram showing Net Profit, Difference of Spread and Burden



In 2005\06 AD, the bank net burden was growth by 68.93% than the previous year. Further, it was observed that the bank has been able to maintain the good track of profit generation. This is the reason why; the bank has been awarded by "The Bank of the Year 2003 AD and 2005 AD".

Its planning concept and shadowing the plan in the budget and proper operation gave up the bank to achieve its ultimate goal of generating profit from its investment. The growth of net income of the bank is significant.

4.4.10 Performance Evaluation of Bank

"Performance evaluation for internal management use is an important part of a comprehensive budgeting system". All companies regardless of their size have reporting requirements to show their overall performance.

Performance reporting is an important phase of control process. We can use various techniques & criteria to evaluate performance of Bank, which are as follows:

1. Ratio Analysis
2. Cost Volume Profit Analysis

4.4.10.1 Ratio Analysis

An arithmetical relationship between two figures is known as ratio. Ratio analysis is a financial device to measure the financial positions, major strengths and weaknesses of a firm. To evaluate the performance of an organizational by creating the ratios from the figures of different account consisting in balance sheet and income statement is known as ratio analysis. Ratio can be classified for the purpose of exposition into four broad groups:

- Current Ratio
- Capital Structure Ratio
- Activity Ratio
- Profitability Ratio

a. **Current Ratio**

The ability of a firm to meet its obligation in the short term is known as liquidity. It reflects the short-term financial strength of the firm. Now we can use current ratio to measure relationship of current assets & current liabilities of Bank. Following table shows the bank's current ratio status.

Table 23: Calculation of Current Ratio

Fiscal Year	Current Asset(A)	Current Liability(B)	Current Ratio(A/B)
2003/04	2013100	640269	3.4:1
2004/05	1111447	278796	3.99:1
2005/06	1081545	437392	2.47:1
2006/07	1657929	423866	3.91:1
/2007/08	2212532	682853	3.24:1

(Source: NIBL Annual Reports 2003/04 AD to 2007/08 AD)

From the above table, it was observed that the bank's current ratio was3.14:1 in 2003/04 AD, 3.97:1 in 2004/05 AD, 2.47:1 in 2003/04 AD, 3.91:1 in 2004/05 AD and 3/24:1in 2007/08 AD.

The standard of current ratio is 2:1. Current ratio of Bank was above the standard ratio in each year. The NRB bank balance of the bank is not taken in current asset calculation. However, still it shows that Bank's solvency position is better.

b. Capital Structure Ratio

To judge the long-term financial position of Bank the advantage ratio are calculated. The following two ratios are calculated in Capital Structure Ratio.

- Debt equity ratio
- Interest coverage ratio

I) Debt equity ratio

The relationship between borrowed fund and owner's equity is known as debt equity ratio. For the purpose of the analysis, the amount of fixed deposit of the bank has been taken as long-term debt for the bank. Following table shows the bank's debt equity ratio status.

Table 24: Calculation of Long term Debt Equity Ratio

AmoutntRs.'000'

Fiscal Year	Deposit and borrowings (A)	Equity Capital (B)	Debt Equity Ratio (A/B)
2003/04	2656180	295293	9:1
2004/05	3562266	587739	6.06:1
2005/06	5962970	590586	10.1:1
2006/07	8316687	801353	10.38:1
2007/08	8994233	1203915	7.47:1

(source: NIBL Annual Reports 2003/04 AD to 2007/08 AD)

From the table 26, it was observed that the debt equity ratio of the bank in 2003/04 AD was 9:1 which was decreased to 6.06:1 in 2004/05 AD. It was increased to 10.10:1 in 2005/06 AD but again increase to 10.38:1 in 2006/07. It was decrease in 2007/08 AD and was 7.47:1.

In previous NRB guidelines, the deposit collection and borrowing of the bank was restricted to 10 times of capital fund. But the current guidelines have not restricted the limit for deposit collection. Further, there is no specified limit for long term debt collection by the bank. The debt equity ratio of the bank was high which implied to more dept in comparison to capital fund. However, as the Bank's on of the major function is to accept customer deposit, it is obvious that the bank would have high deity equity ratio.

ii) Interest Coverage Ratio

This ratio measures the interest payment capacity of Bank. It is computed by dividing Net Profit before interest & tax by interest cost amount. Foss owing table shows the band's interest coverage ratio.

Table 25: Calculation of Interest Coverage Ratio

(Amount in Rs.'000'

Fiscal Year	Net Profit before Interest and Tax	Interest Expenses Amount (B)	Times
2003/04	557675	236202	2.36
2004/05	688225	354549	1.94
2005/06	995861	490947	2.03
2006/07	408906	685530	2.06
2007/08	2012119	992158	2.03

(Source: NIBL Annual Reports of Fiscal Year 2003/04 AD to 2007/08 AD)

From above table, it was observed that the interest coverage ratio of the bank in 2003/04 AD was 2/36 times which was decreased in 2004/05 AD to 1.94 times. In 2005/06 AD it was increased to 2.03 times. Then it was 2.06 and 2.03 in 2006/07 and 2007/08 respectively.

There is no standard ratio of interest coverage in case of bank, however, it would be better if coverage ratio was higher than 1. The interest coverage of the bank was higher than one and was increasing year by year, which means the bank could able to pay interest in borrowing adequately and is indicator of healthy financial status of the bank.

c. Employee productivity Ratio (Activity Ratio)

The relationship between various activities and the number of employees are indicted by employee productivity (activity ratio. These ratios reflect how efficiently the organization is utilizing its manpower. These are expressed as LDO per employee, Deposit per employee and non-funded activities per employee. The following table shows the employee productivity ratio of the bank.

Table 26: Calculation of Employee productivity Ratio of Bank

Amount in Rs.'000'

Faced year	Total		No. of Employee	per employee	
	Deposit	1DO.		Deposit	1DO.
2003/04	1152.680	7338,566	325	35461	22580
2004/05	14.254574	10453,164	352	40496	29696
2005/06	18927.306	13178,152	390	48532	33790
2006/07	24488856	17769100	514	47644	34570
2007/08	34451726	27259305	622	55389	43825

(Source: NIBL Annual Reports 2003/04 AD to 2007/08 AD)

From the table 28, it was observed that the number of employees in there bank was 325,352,390 514 and 622 in 2003/04 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively. The per employee deposit was Rs. 35461 thousand, Rs. 40496 thousand, Rs. 48532 thousand, Rs. 47644 thousand and Rs. 55389 thousand respectively. Per employee deposit was increasing ratio. per employee LDO was RS.22580 thousand, Rs. 29696 thousand, Rs. 33790 thousand, RS. 34570 thousand and Rs. 43825 thousand in 2003/04 AD, 2004/05 AD, 2005/06 AD, 2006/07 AD and 2007/08 AD respectively. Per employee LDO was also in increasing ratio.

Above analysis showed that deposit per employee, LDO per employee was in increasing trend which means productivity of Bank is remarkable.

d. profitability Ratio

It shows the overall efficiency of the organization. The relation of the return of the return of the firm to either its sales or its equity, or its assets is know as profitability.

i) Return on Asset (ROA) and Return on capital on assets and capital fund of bank

Table 27: Calculation of Profitability Ratios.

Fiscal Year	Net Profit	Total Assets	Return on Assets	Total Capital Fund	Return on Capital
2003/04AD	152671	13255496	1.15%	818670	18.65%
2004/05AD	232147	16274064	1.43%	1184190	19.60%
2005/06AD	350536	21330138	1.64%	1630008	21.51%
2006/07AD	501399	27590845	1.82%	2577919	20.00%
2007/08AD	698873	38873306	1.80%	3793299	19.42%

(Source: NIBL Annual Reports 2003/05 AD to 2007/08 AD)

The return on assets of the bank in 2003/04 AD was 1.15%. It was increased to 1.43% in 2004/05 AD. It was again increase to 1.14% in 2005/07 AD. In 2006/07 AD, it was 1.82% and to 1.80% in 2007/08 AD. Similarly, return on capital fund 200 in 2003/04 AD. was 18.65%. It was increased to 19.6% in 2004/05 AD. In 2005/06 AD, it was again increase to 21.51% which was 20% in 2006/07 AD and 19.42 in 2007/08 AD.

The total capital fund has been calculated taking share capital, borrowings, general reserve, provision for dividend, bonus shares provision, capital adjustment balance, and debenture redemption fund and accumulated retained earning. Above observations showed that net profit of Bank was in increasing trend.

It was observed that on 2002/03 when the bank's shareholders pattern was changed from foreign invertors to Nepalese investors, the bank has made remarkable progress in various areas. The profitability ratio of Bank was sound and strong. Its profit ratio indicated overall high efficiency of the bank and better utilization of total resources available.

i) Earning per share (EPS), Market Price Per Share (MPS) and Price Earning (P/E) Ratio

The following table shows EPS, MPS and P/E ratio of the bank for the study period.

Table 28: Calculation of EPS, MPS and P/E Ratio

Amount in Rs 000'

Fiscal Year	Net Profit after interest and tax	Total no of capital shares	EPS	MPS	PE Ratio (MPS/EPS) times
2003/04AD	152671000	2952930	51.70	940	18.18
2004/05AD	232147000	5877385	39.50	800	20.25
2005/06AD	350536000	5905860	59.35	1260	21.23
2006/07AD	501399000	8013526	62.57	1729	27.63
2007/08AD	698673000	12039154	58.03	2456	42.33

(Source: NIBL Annual Reports 2003/05 AD to 2007/08 AD)

EPS of the bank in 2003/04 AD was Rs. 51.70 which was decreased to Rs. 39.5in 2004/05AD. But it was increased to Rs. 59.35 in 2005/06, again it was increased to Rs. 62.57in 2006/07AD however; it was again to Rs. 58.03 in 2007/08 decrease of EPS in 2007/08 AD was mainly due to the increase in number of shares.

Similarly, MPS of the bank in 2003/04 AD was Rs. 940. It was decreased 800in 2004/05. Further, it was increased to Rs. 1260 in 2005/06 AD, to Res. 1729 in 2006/07 AD and to Rs. 2456 in 2007/08 AD. The regular and significant increase in MPS of the bank was mainly due to remarkable progress in profitably, regular dividend provision and financial progress of the bank.

Price earning ratio of the bank in 2003/04 AD and further highly increased to 42.33 times in 200/06 AD. This showed that the investment in the bank has been recognized in the share market very well.

These observations clearly showed that the bank has increasing the shareholders fund by implementation of expansion plan and budget.

4.4.10.2 Cost Volume Profit Analysis

The relationship between cost, volume and profit is known as cost Volume Profit analysis. It is an analytical tool for studying the relationship between volume, cost and profit. It is also an important tool used for the profit planning in the business.

Terre are three factors of cost volume of profit analysis, which are interconnected and dependent on one another. For example, profit depends upon sales, selling price to a greater extent will depend upon the costs, and costs depend upon the volume of production.

Cost volume profit analysis is great helpful in managerial decision making specially cost control and profit planning.

CVP analysis of Bank based on following assumptions:

- Cost volume structure is based on the accounting data of fiscal year2007/08 AD CD ratio and YOF is taken for the last five years average.
- Activity base is selected in terms of Rs. '000
- In case of bank Net Burden is treated as fixed cost, which is calculated on basis of margin (Spread) is calculated on basis of total interest in come and total interest expenses of fiscal year 2007/08 AD.
- Total interest incomes and interest expenses are variable on different level and positively correlated.

Cost Volume Profit Analysis of Bank	**Amount in Rs. '000**
Total Interest Incomes	2194275
Total interest Expenses	992158
Total Other Expenses	1059577
Total Other Incomes	454556
Average Yield on fund (YOF)	8.85%
Average CD ratio	2.72%

Net Burden = Total Other Expenses – Total Other Incomes

= 1059577-454556=605021

Interest Margin (spread) Total Interest Income -Total Interest Expenses

=2194275-9921589=1202117

i. We can calculate the BEP interest of interest income of NI Bank as below:

BEP in % $= \frac{\text{Net Burden} \times 100}{\text{Spread}}$

$= \frac{605021 \times 100}{1202117}$

=50.33%

BEP in Rs. =Interest × BEP%

= 2194275×50.33%

=1104370

ii. Margin of Safety for the year 2007/08 AD, can be calculated as below:

Margin of safety Total Interest Income – BEP Income

=2194275 – 1104370

=1089905

Margin of Safety ratio (for 2007/08)

Margin of safety ratio $= \frac{\text{Margin of Saftey} \times 100}{\text{Total Interest Revenue}}$

$= \frac{1089905 \times 100}{2194275}$

=49.67%

iii. BEP in terms of volume of LDO can be calculated as below:

BEP LDO $= \frac{\text{BEP Interest Income}}{\text{Average YOF}}$

$= \frac{1104370}{5.85\%}$

=12478757(Actual 27529305)

iv. BEP in terms of Volume of Deposit can be calculated as below:

BEP Deposit $= \frac{\text{BEP Interest Expenses}}{\text{Average CD Ratio}}$

$$= \frac{992158 \times 50.33\%}{2.72\%}$$

=18358571(Actual 34451726).

The above calculation was based the financial information of the bank for 2007/08 AD. The bank has burden Rs605021 thousand and spread Rs. 1202117 thousand. The calculated Beep level was 50.33% or Rs. 1104370 thousand in figure where as actual interest level was 2194275 thousand. Hence, the margin of safety of the bank was Rs. 1089905 thousand. The BEP LDO and Deposit were calculated to Rs.12478757 thousand and Rs. 18358571 thousand respectively corresponding to actual LDO Rs. 27529305 thousand and actual deposit Rs. 34451726 thousand respectively.

This information greatly help to the management of the bank, the major limitation of this calculation is the assumption that the interest income and interest expenses as variable and positive correlation. However, the assumption of positive correlation between income and expenses could not be measured. From the analysis it could be said that the bank's future earning trend would have been encouraging if it could increase its revenue and decrease its burden. The bank was operating over the level of BEP.

4.4.10.3 Cash Flow Analysis

Following table presents cash flow statement of the bank for last two years, which gives the satisfactory picture of cash inflow to meet the required cash out flow within the bank for the period.

From cash flow table it was observed that cash flow from operating activities was substantially increased to Rs.1164862 thousand in 2007/08 AD from cash flow of Rs. 344114 thousand in 2006/07 AD.

The major contributors for operating cash inflow were interest income and deposit collection and that of outflow were interest expenses, staff costs, office overheads, loan and bills purchases and investments.

The cash flow from investing activities was negative in both financial years. However, it was decreased from negative Rs.490474 thousand in 2006/07 AD to negative Rs. 303659 thousand in 2007/08AD.

Cash flow from financial activities was also significantly changed. In 2006/07AD it was Rs.251353 thousand which was increased to Rs 452225 thousand in 2007/08 AD. The cash flow was generated in form of share capital and long term borrowing.

On overall, the cash balance of the bank has been substantially increased in 2007/08 AD to Rs.3754942 thousand from Rs. 2441514 thousand in 2006/07 AD.

Table 29: Cash Flow Statements Amount in Rs 000'

Fiscal year	2006/07 AD	2007/08 AD
(a) Opening balance of Cash and Bank Balance	233652	2441514
(b)Cash Flow from Operating Activities	344114	1164862
1. Cash Receipts	1931561	2641783
1.1 Interest Income	1584987	2194276
1.2 Commission and Discount Income	163899	215292
1.3Exchang Gain	135355	165839
1.4 Other Income	47319	66377
2.Cash Payments	(1244431)	(1707405)
2.1Interse Expenses	(685530)	(992158)
2.2 Staff Expenses	(145371)	(187150)
2.3 Office Overhead Expenses	(182530)	(230597)
2.4 Income Tax Paid	(231000)	(297500)
Cash Flow Before Changes in Working Capital	687130	934378
(Increase)/ Decrease of Current assets	(5787657)	9775296
1. (Increase)/Decrease in Money at Call and Short Notice	(292970)	362970
2.(Increase)/Decrease in Short-term Investment	(885296)	(349051)
3. (Increase)/Decrease in Loan and Bills Purchase	(4590948)	(9760205)
4. (Increase)/Decrease in Other Assets	(18443)	(29010)
Increase/Decrease) of Current Liabilities	54446420	(10005780)
1. Increase(Decrease) in Deposits	5561550	9962870
2.Increase/(Decrease) in Other Liabilities	(1169087)	42910
(c) Cash Flow from Investing Activities	(490474)	(303659)
1.(Increase)/Decrease in Long-term Investment	(17515)	(24693)
2.(Increase)/Decrease in Fixed Assets NBA	(473172)	(279799)
3. Dividend Income	213	832
(d) Cash Flow from Financial Activities	251353	452225
1.Increase/(Decrease) in Long-term Borrowings	250000	250000
2.Increase/(Decrease)in Share Capital	1353	202225
(e) Current Year's Cash Flow from All Activities	104993	1313427
(f) Closing Balance	2441514	3754942

(Source: NIBL Annual Reports 2003/05 AD to 2007/08 AD)

4.5 Finding of Study

The major findings of this research study of comprehensive budgeting aspect in NIBL are as follows:

1. Management and Personnel

a. The bank has the system of preparation of business plan and business budget.
b. Budgeting system is centralized and top down approach.
c. Budgeting system brought the management and staff closure and motivated to good cooperation each other.
d. Bank budget system and planning system are focus to achieve the bank goals
e. Bank budget were prepared based on the bank's plans.
f. Planning and budgeting of bank was based on the past trends, existing market conditions, foreign policy, fiscal policy, demands, competitions etc.
g. Bank has separate budget unit attached with accounts unit.
h. The bank revised the budget as per the necessity of the condition which is beyond the control of the bank.
i. Bank is introducing the new services with initial plan and target which is achieved by systematically implementing the services.
j. Banks policies are influence to bank budget system.
k. Bank budget system improved the management system and profitability in changing the management style, staff recruitment view, credit review process, technology investment decision, etc.
l. Budgeting system and planning system of the bank directly impact on HR policy, capital investment policy, lending and borrowing policy, dividend policy, etc.
m. Management is committed to customers and able to define the risks ideates and technically measure those risks. The bank has followed different policy to reduce those risks.

2. Branch Office

Bank is currently operating with its 18 branch offices making its presence at almost all of the cities of the country. It is one of the banks, having highest branch network among the joint-venture banks in Nepal.

3. Financial Status

a. Bank provided bonus shares and offered for 1:1 right shares.
b. Reserve and profit of the bank increased by 39% in 2007/08 AD.

4. Resources Mobilizations

a. Major concentration of resources mobilization of Bank was at deposit mobilization. In 2007/08AD it was 89%of total resource mobilization.
b. Budget achievement of deposit mobilization in 2005/06AD was 100.66%.
c. Budget and actual deposit collations from 23001/02AD to 2005/06AD were overlapping in amount.
d. Deposit mobilized by the banks is found to be considerably growing every year. In 2007/08AD the growth rate is 41%.
e. Bank has maintained the capital employed (Capital fund and Reserve fund) to about 7% of total fund mobilization.
f. The estimated target set for deposit mobilization has been well met every year by the bank.
g. From the data analysis of deposit budget and actual achievements, by coefficient of variance, it was found that, the actual deposits were more variable than the budgeted one.
h. Resources Mobilization other than deposit collection amounted to 11% of total resources.

5. Resources Deployment

a. Bank's resources deployment for non-yielding liquid assets (cash and bank balance was increasing every year, which was detrimental to profitability objectives, but it was supportive to meeting liquidity requirements of the bank. It is 10% of total deployment in 2007/08 AD amounting to Rs. 3754942 thousand compared to Rs. 2441514 thousand in 2006/07 AD.
b. Major portion of the resources have been deployed in LDO. It was 69% of total deployment in 2007/08 AD.
c. The estimated targets for deployment toward LDO have been well met every year by more than 100%.

d. LDO of the bank has found to be considerably increasing every year. In 2007/08 AD, it is increased by 53.48 than of 2006/07 AD.
e. From the analysis of Budgeted and Actual LDO with the help of co-efficient of variance, it is found that, the actual LDO is more variable than the budgeted one.
f. CD Ratio (Credit to Deposit Ratio), ratio of LDO on total deposit expressed in percent term of the bank is high. The CD ratio of the bank in 2007/08 AD is 80%.
g. The data analysis of LDO and deposit, with the help of Karl Pearson's co-efficient of correlation shows that, the deposit and the LDO are perfectly correlated.
h. The data analysis of deposit and LDO with the help of coefficient of variation shows that LDO is more variable than the deposit.

6. Expenditure

a. Inertest expense amount is the highest among total expenses items of the bank every year. In 2007/08 it is 48.38% of total expenses.
b. The interest expense of the bank is found increasing each year corresponding to the increase in deposit. The interest expenses show perfect and positive correlation with deposits.
c. Cost of deposit (calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year end expressed in percent term) of the bank is found to be fluctuating giving result of decrease in cost of deposit. The COD in 2007/08 AD is 2.88%.
d. Other expenses of the bank are also in creasing trend every year.
e. The bank has maintained loan loss provision at 1093 of outstanding LDO in 2007/08 AD.

7. Revenue

a. Interest income amount of the bank is the highest contributors in the total revenue. It is 82.84% of total revenue in 2007/08 AD.
b. The amount of interest income is increasing every year corresponding to increase in LDO. There is perfect and positive correlation between interest income and LDO.
c. Yield on LDO (Ratio of interest income on total LDO expressed in percent term) which is 8.85% in an average on study of five years.

d. The other income of bank is also increasing trend.
e. The interest spread or the amount of interest margin is found to be increasing every year.
f. Net burden of the bank is increasing every year, but as the average rate of growth of the income is higher than that of other expenses, it can be expected that it would not hamper much to the profitability if the same trend is continued.
g. The net profit of the bank is constantly increasing trend. As the rate of growth of spread is higher than that of burden, the profitability of the bank is increasing. The net profit of bank in 2007/08 AD is increased by 39% than 2006/07 AD and it amounted to Rs.698.673 thousand. It is the highest net profit amount for the study period.

8. Ratio Analysis

a. The average current ratio of the bank has found to be always higher than standard ratio is 2:1, which shows satisfactory liquidity position of the bank.
b. Generally the debt equity ratio of the banks is higher because they mobilize fixed deposits much more times of their capital fund. NI Bank is also not exception to it. The average debt equity ratio of the bank is approximately 8.6 in five years study period.
c. The interest coverage ratio of the bank was 2.03 times during 2007/08 AD.
d. From the study of total number of manpower and total volume of overall activities of the bank, it is found that the volume of business per employee is increasing every year, which suggests increasing productivity of manpower.
e. From the profitability ratio, it is found that the ROC (Return on Capital) was the highest 21.51 in 2005/06 AD however it is 19.42% in 2007/08 AD. This may be due to higher rate of increase in capital fund than that of net profit.
f. The Earning per share of the bank is increasing in trend. Ti is Rs. 58.03 per share in 2007/08 AD in compared to Rs.52.23 per share in and average in five years' study period.
g. The market capitalization of the bank also in increasing in trend despite the regular dividend payment and the bonus share issue. It is Rs.2456 per share in 2007/08

h. From the cost volume analysis, the break-even income level of the bank is found to be Rs.1104370 thousand and BEP LDO and BEP deposit to be Rs. 12478757 thousand and Rs.18358571 thousand respectively.

9. Cash Flow

a. Cash flow analysis of the bank shows the sources of cash inflow are adequately met by the bank for the cash outflow.
b. Deposit mobilization is the major contributor for cash inflow in the bank

CHAPTER- FIVE

SUMMERY, CONCLUSION AND RECOMMENDATION

5.1 Summery:

Bank, financial institutions collects, disperses and controls the flow of money. The role of money in the economy is very important. Proper and well-planned management of money directs, determines and enhances the health and productivi8ty of total financial sector. The performance of financial sector affects the growth of economy the whole infrastructure of national development, direction of economy, rate of progress and even the habit of people are being the function of banking system. The existence of bank has its root in economic development and the banks have a big role to play in fund mobilization to increase the pace of development. The liberalization of financial sector in Nepal has opened a new horizon of expectancy in banking industry.

The ideal commercial banking system regularizes the scatter fund from public. The main function of commercial banks are borrowing and lending money. The most important function of banking business is lending. It provides loan to trade, business and industry sector to raise capital lending function of bank determines its future. The efficiency of any banker lies in how it multiplies the deposits of depositors. Lending should be accompanied by some basic principle and practices. Besides lending investment is also another function of commercial bank. Investment refers to buying shares, stocks bonds and securities of other company, which are already existed in the market. It is less risky job as compare to lending function. Investment helps to increase national economy by increasing capital fund that are needed by other company.

Bank pay certain percent of interest on deposit fund and charges certain percent interest on loan and advances and investment as well.

Commercial banks are profit-oriented institutions. From the borrowing and lending function it generates profit. It lends money in profitable sector to increase its profit. Proper mobilization of fund increases the profitability of the bank. Proper utilization of fund towards the lending function shows the efficiency of the banking function. Profit is a measuring tool of organizational overall performance. How far an organization is able to use its resources to generate profit. Success of the organization is determined by the amount of profit it has earned.

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution, has to plan for the reasonable profit earnings. Profit planning, in short, is the planning of activities in such a way that its helps in increasing the income at a minimum possible cost or at optimum cost. This study aims at examining the applications of budgeting aspect in a commercial bank, with a specific case study of Nepal Investment Bank Limited.

Nepal Investment Bank is one of the well-run commercial bank in Nepal established previously as Nepal Indosuez Bank Limited in 1986AD as a Joint Venture between Nepalese and French Partners. The French partners (holding 50% of the capital of NIBL) Credit Areole Indosuez divest to a group of bankers professional, Industrialists and businessmen of Nepal acquired the 50% shareholding of Credit Agricola Indosuez on April 2002 AD. The bank has completed twenty two years of its operation.

This study has tried to cover the various aspects of budgeting in the bank from the time of its inception to the end of fiscal year 2007/08 AD. In the first introductory chapter, this study report has tried to give brief introduction banking and its relation to the economy, brief profile of the concerned bank, general concepts to the profit and profit panning, the problem statement, objective of the study and its scope, limitations and significance.

During the research works, and extensive review of various literatures, books, past thesis, journals have been made and Internet materials from relevant websites were also consulted. The works were compiled into chapter two titled as 'Review of Literature' of the study report.

Research methodology followed for this research work is mentioned in the chapter three titled as 'Research Methodology'.

Data relating to various activities of the bank has been collected, presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, mathematical and statistical tools and are listed in a systematic manner. All these works are compiled in the forth chapter titled as 'Data Presentation and Analysis' of this study.

Finally, the summary and the recommendation are made for this study is hereby being presented in this current chapter five titled as 'Summary, Conclusion and Recommendations'.

5.2 Conclusion

The study analyzes the detail in relation to the present practice of managerial budgeting system in Nepal Investment Bank and its impact on profit. It shows the following conclusions stated as follows:

1. The study shows that the bank has the practice of preparation of the comprehensive business plan and business plan and business budget on annual basis based on the past trend, market expectation and the proposed ways of serving the customers. Internally it has defined budgetary targets to meet.
2. The study also shows that the bank was able to meet the estimated budgetary limits annually and no significant variance has been reported.
3. The profit plan of the bank shows that the bank was within the budgetary limitation. It has succeeded in implementation of new services.
4. The budget system supported the management system to recognize the necessary changes to be made under different conditions with the true example of budget revision.
5. Due to the business plan and necessity to achieve the business budget target, the bank was forced to identify the risk in its environment and establish necessity curative actions which the bank did indeed by establishing Credit Quality Control unit, Asset liability Management Committee, etc. This was good result of budget (Target) achievement goal.
6. The introduction of new services directly contributes to the increase in the spread. The increase in human resources increased the productivity rate per staff, the

increase in office increase the turnover of the organization, increase coordination between staff, increase in the importance of bank goal by all the staff are good impact of budgetary system in the management system.

7. Analyzing the financial data of over five years I have concluded that its strength is collecting deposit, increasing income, good liquidity position and also satisfactory net worth position.
8. On overall, the bank has effective budgetary system and also supportive for the true achievement of the budgetary goal.

5.3 Recommendations

On basis of the study on Budgeting and its impact on profit of the bank, the following suggestions are recommended to improve the budgeting and profit planning system of the bank.

1. The bank has collected high amount to deposit but could not utilize its fund towards profitable sector. It must utilize properly its fund. Otherwise it only increases its expenses rather than increase its income. Large amount of deposit increases interest expenses, staff expenses and operating expenses and reduces profit. So, it must find out new area of investment and increase lending activities to utilize available fund in profitable project. Also, it should collect the large amount of non-interest bearing fund.
2. It is suggested to the bank to form a specific Planning and Research Department, effort to utilize the available resources, and implement cost effectiveness techniques to reduce operating expenses. It must utilize effectively its human resources to reduce its staff expenses. Decrease in expenses will increase Net profit of the bank.
3. The bank should revise its credit policy. Due to poor credit policy, it has bearing high amount of loan losses and its lending activities are also reducing. Increase in loan loss provisions will reduce its profit in long term. Loan losses are the result of mobilizing loan and advances in the defective projects. The bank should flow the loan on profitable and secured projects only. The bank must evaluate the project before flow the loan and mobilize the fund effectively on profitable project. The bank has to make a proper effective plan for its credit policy to make positive re relation with profit and also to reduce loan loss provisions. This will certainly increase its profit.

4. Banks CD ratio is high, which is rather a compulsion for the bank to meet the cost of deposits. Higher CD ratio although give good return in short term, it hampers the liquidity and is more risky for the bank and calls for more provision for loan loss. In this way the profitability of the bank, also get hampered on the long run.
5. LDO of the bank ahs increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures required (such as trained manpower, logistics etc) are not adequate. Therefore, with such poor infrastructure to support its objectives.
6. Expenses cannot be avoided and always are growing with increasing activities, but it should be optimize and should be related with the income generating activities, Bank should minimize those expenses which are not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank; therefore lowering the other expenses, the bank shall enhance its profit.
7. 8.As. most of the bank are restructuring the bank LDO by simply paying the interest due by the customer which reduce the bank loss and show the good position of the bank but in reality, these interest was paid by the customer by either taking loan from another bank or by selling the fixed assets. This would not be going for long run and eventually the bank would have to face the big loss and on the point the budgeting system fails. Hence, it is necessary to study such a probable future situation of the bank to know the real impact of budgeting system in current period.
8. Net profit of the bank is the amount, which is obtained by subtracting the amount of net burden from the amount of gross interest margin. Therefore, NI bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses.
9. 10 The bank has to make proper plan for the profit. Profit is decreasing yearly, although there is increment on deposit and loan and advances. The bank must reduce expenses and increase its income. The planning help to utilize the resources properly mobilize deposit toward profitable sector and flow the loans on secured projects to reduce loan loss provision. Profit is the measurement of success. Increases in profit indicate that the firm is financially very strong. Profit maximization is the main objective of the profit-oriented organization. Making plan for profit will certainly help to increase the profit.

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Appendix 1

Appendix: Trend calculation of Deposit Collection

Fiscal Year	Year(x)	Actual Amount (y)	(x-Mean of x=x)	y-Mean of y=y	x^2	xy
2003/04	1	11,524,680	1	3377506	1	3377506
2004/05	2	14,254,573		547612	0	0
2005/06	3	18927304	1	4025118	1	4025118
	6	44706557			2	7402624

Trend Formula y=a+bx, where, a $\sum y/N$ = and b = $\sum xy / \sum x^2$

Therefore,

Mean of X = $\sum x/N = 6/3 = 2$

Mean of y = $\sum y/N = 44706557/3 = 14920186$

Value of b= $\sum xy / \sum x^2 = 7402624/2 = 3701312$

Now Value of y in trend

Year	a	b	x	y=a+bx
1	14902186	3701312	-1	11200874
2	14902186	3701312	0	14902186
3	14902186	3701312	1	18603498
4	14902186	3701312	2	22304810
5	14902186	3701312	3	26006122

Appendix 2

Status for budgeted and Actual deposits Collection

Fiscal Year	Budgeted amount	Actual Amount (y)	(x-Mean of x) =x	(y-Mean of y) = y	x^2	y^2	xy
2003/04	11200874	11524680	7402624	9204750	54798842085376	84727422562500	68139303264000
2004/05	14902186	14254570	3701312	6474860	13699710521344	41923812019600	23965477016320
2005/06	18603498	18927300		1802130	0	3247672536900	0
2006/07	22304810	24488900	3701312	3759470	13699710521344	14133614680900	13914971424640
2007/08	26006122	34451700	7402624	13722270	54798842085376	188300693952900	101580805236480
	93017490	103647150			136997105213440	318199601071900	207600556941440

Arithmetic Mean of $\sum x/N$

(where , N = No of fiscal year = 5)

$= \frac{93017490}{5} = 18603498$

Arithmetic Mean of Y = $\sum y/N$

$= \frac{103647150}{5} = 20729430$

Standard Deviation of X(-X)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\frac{136997105213440}{5}} = 5234446$

Standard Deviation of Y(-Y)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\frac{318199601071900}{5}} = 8101849$

Coefficient Variation (CV) of X = $-X/MeanofX$

$= 5234446/18603498 = 0.28$

Coefficient Variation (CV) of Y =$-Y/Meanof\,Y$

$= 8101847/20729430 = 0.39$

Karl Pearson's Coefficient (r) = $N\sum xy/\sqrt{\left[N\left(\sum x^2\right)N\left(\sum y^2\right)\right]}$

$$\frac{5\times 20760556941440}{\sqrt{5\times 136997105213440\times 5\times 3181996041071900}} = 0.992$$

Problem error (PE) = $\left(1-r^2/\sqrt{N\times 0.6745}\right) = (1-0.992\times 0.992)/\sqrt{(5\times 0.6745)} = 0.0086$

Appendix 3

Trend calculation of Resources other than Deposit

Fiscal Year	Year (x)	Actual Amount (y)	(x-Mean of x) =x	(y-Mean of y) = y	x^2	xy
2003/04	1	1730187	1	320650	1	320650
2004/05	2	2019491		31246	0	0
2005/06	3	2402832	1	351996	1	351996
		6152510			2	672646

Trend Formula y=a+bx, where, a $\sum y/N$ = and b = $\sum xy / \sum x^2$

Therefore,

Mean of X = $\sum x/N = 6/3 = 2$

Mean of y = $\sum y/N = 6152510/3 = 2050837$

Value of b= $\sum xy/\sum x^2 = 672646/2 = 336323$

Now Value of y in trend

Year	a	b	x	y=a+bx
1	2050837	336323	-1	1714514
2	2050837	336323	0	2050837
3	2050837	336323	1	2387160
4	2050837	336323	2	2723483
5	2050837	336323	3	3059806

Appendix 4

Fiscal Year	Year(x)	Actual Amount (y)	(x-Mean of x=x)	y-Mean of y=y	x^2	xy
2003/04	1	7,338,566	-1	-2984728	1	2984728
2004/05	2	10453164		129870	0	0
2005/06	3	13178152	1	2854858	1	2854858
	6	30,969,882	0		2	5839586

Trend Formula y=a+bx, where, a $\sum y/N$ = and b = $\sum xy / \sum x^2$

Therefore,

Mean of X = $\sum x/N = 6/3 = 2$

Mean of y = $\sum y/N = 30969882/3 = 10323294$

Value of b= $\sum xy / \sum x^2 = 5839586/2 = 2919793$

Now Value of y in trend

Year	a	b	x	y=a+bx
1	10323294	2919793	-1	7403501
2	10323294	2919793	0	10323294
3	10323294	2919793	1	13243087
4	10323294	2919793	2	16162880
5	10323294	2919793	3	19082673

Appendix 5

Status for budgeted and Actual Loan and Advances

Fiscal Year	Budgeted amount	Actual Amount (y)	(x-Mean of x) =x	(y-Mean of y) = y	x^2	y^2	xy
2003/04	7403501	7338566	-5839586	-7915091	34100764651396	62648671870354	46220856928160
2004/05	10323294	10453164	-2919793	-4800493	8525191162849	23044736883444	14016447025866
2005/06	13243087	13178152	0	-2075505	0	4307722665429	0
2006/07	16162880	17769100	2919793	2515443	8525191162849	6327451473895	7344571695382
2007/08	19082673	27529305	5839586	12275648	34100764651396	150691523999386	71684699865894
	66215435	76268287	52972348	61014630	2806069652633100	3722785025225200	3232088192262300

Arithmetic Mean of $\sum x/N$

(where , N = No of fiscal year = 5)

$= \dfrac{866215435}{5} = 13243087$

Arithmetic Mean of Y = $\sum y/N$

$= \dfrac{76268287}{5} = 15253657$

Standard Deviation of X(-X)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\dfrac{2806069652633100}{5}} = 5839586$

Standard Deviation of Y(-Y)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\dfrac{3722785025225200}{5}} = 12023186$

Coefficient Variation (CV) of X = $-X/MeanofX$

$= 5839586/13243087 = 0.441$

Coefficient Variation (CV) of Y = $-Y/Meanof\,Y$

$= 120231863/15253657 = 0.788$

Karl Pearson's Coefficient (r) = $N\sum xy/\sqrt{\left[N\left(\sum x^2\right)N\left(\sum y^2\right)\right]}$

$5 \times 3232088192262300/\sqrt{\{5 \times 2806069652633100 \times 5 \times 37227895025225200\}} = 1$

Probable error (PE) = $\left(1 - r^2/\sqrt{N} \times 0.6745\right) = (1 - 1 \times 1)/\sqrt{(5 \times 0.6745)} = 0$

Appendix 6

Status for Deposit collection and Loan and Advances Rs in '000

Fiscal Year	Deposit collection (x)	IOD (y)	(x-Mean of x) =x	(y-Mean of y) = y	x2	y2	xy
2003/04	11524680	7338566	-9204750	-7915092	84727422562500	62648681368464	72856443087000
2004/05	14254570	10453164	-6474860	-4800493	41923812019600	23044733043049	31082520105980
2005/06	18927300	13178152	-1802130	2075505	3247672536900	4307721005025	-3740329825650
2006/07	24488900	17769100	3759470	2515443	14133614680900	6327453486249	9456732495210
2007/08	34451700	27529305	13722270	12275647	188300693952900	150691509268609	168449742558690
	103647150	76268287			332333215752800	247020098171396	28710510842123

Arithmetic Mean of $\sum x / N$

(where , N = No of fiscal year = 5)

$= \frac{103647150}{5} = 20729430$

Arithmetic Mean of Y = $\sum y / N$

$= \frac{76268287}{5} = 15253657$

Standard Deviation of X(-X)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\frac{332333215752800}{5}} = 8152708$

Standard Deviation of Y(-Y)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\frac{247020098171396}{5}} = 7028799$

Coefficient Variation (CV) of X = $-X/MeanofX$

$= 8152708/20729430 = 0.39$

Coefficient Variation (CV) of Y $= -Y/Meanof\,Y$

$= 7028799/15253657 = 0.461$

Karl Pearson's Coefficient (r) = $N\sum xy \Big/ \sqrt{\left[N\left(\sum x^2\right)N\left(\sum y^2\right)\right]}$

$5 \times 28710510842123 \Big/ \sqrt{\{5 \times 332333215752800 \times 5 \times 247020098171396\}} = 0.9942$

Probable error (PE) = $\left(1 - r^2/\sqrt{N \times 0.6745}\right) = (1 - 0.9942 \times 0.9942)\Big/\sqrt{(5 \times 0.6745)} = 0.0063$

Appendix 7

Status of Interest Expenses to Total Deposits Rs in '000

Fiscal Year	Deposit collection (x)	Interest Expenses (y)	(x-Mean of x) =x	(y-Mean of y) = y	x^2	y^2	xy
2003/04	11524680	326202	-9204750	-243615.2	84727422562500	59348365671	2242417012200
2004/05	14254570	354249	-6474860	-215568.2	41923812019600	46469648851	1395773915452
2005/06	18927300	490947	-1802130	-78870.2	3247672536900	6220508448	142134353526
2006/07	24488900	685530	3759470	115712.8	14133614680900	13389452084	435018800216
2007/08	34451700	992158	13722270	422340.8	188300693952900	178371751345	5795474489616
	103647150	2849086			332333215752800	3237997263399	10010818571010

Arithmetic Mean of $\sum x/N$

(where , N = No of fiscal year = 5)

$= \dfrac{103647150}{5} = 20729430$

Arithmetic Mean of Y = $\sum y/N$

$= \dfrac{2849086}{5} = 569817$

Standard Deviation of X(-X)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\dfrac{332333215752800}{5}} = 8152708$

Standard Deviation of Y(-Y)= $\sqrt{\left(\sum x^2/N\right)}$

$= \sqrt{\dfrac{3037997263399}{5}} = 246495$

Coefficient Variation (CV) of X = $-X/MeanofX$

$= 8152708/20729430 = 0.3932$

Coefficient Variation (CV) of Y = $-Y/Meanof\,Y$

$= 246495/569817 = 0.433$

Karl Pearson's Coefficient (r) = $N\sum xy/\sqrt{\left[N\left(\sum x^2\right)N\left(\sum y^2\right)\right]}$

$5\times 10010818571010/\sqrt{\{5\times 332333215752800\times 5\times 303799726399\}} = 0.994$

Probable error (PE) = $\left(1-r^2/\sqrt{N\times 0.6745}\right) = (1-0.994\times 0.994)/\sqrt{(5\times 0.6745)} = 0.0065$

Appendix 8

Status of Interest Income and total Loan and advance Rs in '000

Fiscal Year	Total LDO (x)	Interest Expenses (y)	(x-Mean of x) =x	(y-Mean of y) = y	x^2	y^2	xy
2003/04	7338566	732616	-7915091.4	-581862	62648671870354	338563387044	4605490912187
2004/05	10453164	887770	-4800493.4	-426708	23044736883444	182079717264	2048408937727
2005/06	13178152	1172742	-2075505.4	-141736	4307722665429	20089093696	294173833374
2006/07	17769100	1584987	2515442.6	270509	6327451473895	73175119081	680449862283
2007/08	27529305	2194275	12275647.6	879797	150691523999386	774042761209	10800077931537
	76268287	6572390					

Arithmetic Mean of $\sum x/N$

(where , N = No of fiscal year = 5)

$$= \frac{76268287}{5} = 15253657$$

Arithmetic Mean of Y = $\sum y/N$

$$= \frac{6572390}{5} = 1314478$$

Standard Deviation of X(-X)= $\sqrt{\left(\sum x^2/N\right)}$

$$= \sqrt{\frac{247020106892508}{5}} = 702880$$

Standard Deviation of Y(-Y)= $\sqrt{\left(\sum x^2/N\right)}$

$$= \sqrt{\frac{774042761209}{5}} = 393457$$

Coefficient Variation (CV) of X = $-X/MeanofX$

$$= 702880/15253657 = 0.460$$

Coefficient Variation (CV) of Y = $-Y/Meanof\,Y$

$$= 393457/1314478 = 0.299$$

Karl Pearson's Coefficient (r) = $N\sum xy/\sqrt{\left[N\left(\sum x^2\right)N\left(\sum y^2\right)\right]}$

$$5 \times 18428601477108/\sqrt{\{5 \times 247020106892508 \times 5 \times 1387950078294\}} = 0.995$$

Probable error (PE) = $\left(1 - r^2/\sqrt{N \times 0.6745}\right) = (1 - 0.995 \times 0.995)/\sqrt{(5 \times 0.6745)} = 0.00543$

Questionnaire

Dear sir/Madam,

I here by request you to fill up the questionnaire prepared by me for collecting the precious data from you. Which would be prepared for facilitating the research conducted for partial fulfillment for the requirement of the MBS degree? The research topic is related to **"Budgeting system and its impact on profit. A case study of Nepal Investment Bank Ltd."** Your view will be used for the purpose for the study only. The view will be kept confidential and will not be published anywhere. I will like to request you to provide your valuable answers to the research problem. All the questions are of objective types and while filling the questionnaire please put the tick marks (√) on the box. But for some questions use your kind cooperation will be helpful to complete this study successfully.

Thank you.

Prabin Neupane
(Researcher)
Master of business studies
Shanker Dev Campus.

Signature......................................
Address:
Name:
Designation:
Date:

1. Does the bank prepare its Annual Business Plan? [ ] Yes, [ ]No.

2. What are the components of bank's Financial Plan?
   a) Plan for Resources Mobilization
   b) Plan for deployment of the resources
   c) Plan for non-funded business activities
   d) Revenue Plan.
   e) Expenditure Plan
   f) Other (specify)

3. What are focus objectives of the Annual Business Plan?
   a) Increase the return in shareholders' investment
   b) Expansion on existing volume of transactions
   c) Seek new opportunities
   d) Provide better banking services to customers
   e) Others (specify).....................................

4. Who are normally involved to prepare Annual Business Plan?
   a) Shareholders
   b) Board of Directors
   c) Department heads
   d) Managers
   e) Branch Managers
   f) Officers
   g) Assistants
   h) Others (specify).........................

5. Does the bank prepare Strategic Business Plan? [ ] Yes, [ ]No.

6. Has the bank used Annual Business Budget as the basis of operation?
   [ ] Yes, [ ]No. (If No, go to Q.N. 16)

7. Which is the approach followed by the bank for a preparation of the Annual Business Budget?

....

....

8. Who are normally involved during the preparation of the Budget?
   a) Shareholders

b)Board of Directors
c) Department heads
d) Managers
e) Branch Managers
f) Officers
g) Assistants
h) Others (specify).........................

9. How does the bank address its Annual Plan in the Annual Budget?
....
....

10) Does the bank have a separate budgeting unit? [ ] Yes, [ ]No

11) if no, is there any plan to establish budget unit? [ ] Yes, [ ]No

12) Has the bank practice to revise the Business Plan and Budget during the annual period? [ ] Yes, [ ]No

13) If yes, what are the bases of revising?
....
....

14) Is there any facility of Delegation of Authority in the bank? [ ] Yes, [ ]No

15)How does the management policy reflect in Business Budget?
....
....

16) Is Business Budget helpful to improve profitability? [ ] Yes, [ ]No

17) If yes, how? (Please comment)
....
....

18. If no, what is your view? (Please comment)
....
....

Thank you for answering the questionnaire !