CHAPTER-ONE

Introduction

1.1 Background of the Study

Nepal is predominantly a land locked agriculture country, Agriculture fisheries and forestry altogether account for some 39% of the country in GDP. During the last decade the average growth in the GDP was around 5%. However the last year (FY 2007/08) GDP growth was 3%. The overall growth rate depends primarily on the growth rate of agriculture sector. The growth in other sectors of the economy is constrained by the small domestic market, poor physical infrastructure, inadequate human and financial resources, and land-locked ness of the country, the political instability and the topography of the country. In later years the insecurity caused by Maoist in surgency though currently resolved has also become a major factors to limit the overall economic development of the country.

Nepal is one of the least developed countries in the world. The country has one of the lowest levels of per capital income in the world. During the first eight month of fiscal year FY 2063/064 the country's economy depleted the following.

- The level of inflations in 2064 Mangsir at 10%
- The exports have decreased by 4% in the first seven months of FY 063/64.
- The imports have increased by 0.4% in the same period.
- The balance of payment stood at 6.4% billion at the end of Magh 064.
- The foreign exchange reserves as on Magh 2064 in Rs 165 billion.
- The GDP growth was 2.5% in F/Y 063/064.

(Source: Nepal Rstra Bank Annual Report 2064)

A bank is a financial institution, which accepts deposit from the public and mobilizes deposit to the public as loan and thereby makes a profit of banking system in indispensable in the modern society and plays a pivotal role in the economic development of the country. In the current scenario, there are a large number of institutions dealing with the finances operating in the country. In Nepal by mid April 2008, there are twenty three commercial Banks of class A, twenty eight development Banks of class B, six Rural development Bank, sixty eight finance companies of class C, Eleven development banks of class D, including Five Grameen Banks, twenty co-operative societies and forty-eight NGO operating as financial institutions.

(Source: Nepal Rastra Bank, Annual Report 2063/64.)

1.2 Introduction of Bank

Meaning and definition of Bank:

The world Bank has been derived from Latin work "Bancus" Which means bench in which banker world keep money and it's record.

Bands were in origin from million of year in unauthorized way as money lender but the first authorized bank was "The bank of Venica". It was established on 1157 A.D. in Italy. The second bank was "Bank of Barcelona" of Spain established in 1401 A.D. The modern banks were established in the 17^{th} century. After industrial revolution, Banks were also rapidly developed in the world. To understand toe precise meaning of bank here some definitions:

According to Professor R.S Sayer "A bank is a institution whose debts are sidely accepted in the settlement of other people's debt to each other".

The Indian Banking companies Act, 1943 defines "banking company as one which transacts the business of banking which means accepting for the purpose of lending or investment of deposits of money from the public, repayable demands of other wise withdraw by cheque draft.

As per the saving clause of section 59(3) of Income tax Act 058 of Nepal-"Banking business is defined as the activities conducted by the bank and financial institution approved as per governing laws related to banks and financial institutions. In present context banking business can be done only with the approvable of NRB (The Central Bank of Country) and the banking activities are defined in banks and financial institution. We can easily define as the place where transaction of money and credit occurs. It receives money as deposit from public giving certain rate of interest and granting it to people who are in need charging certain rate of interest. The scarcity of bank will make it impossible for the industrialist and entrepreneur to go directly to general public for getting their saving for investments so the simples to definition for the bank can be given as Bank receive the saving of the people by promising to pay them certain rate of interest and provides the saving to the people who wants of do work but couldn't due to lack of money".

1.2.1 Concept of Commercial Bank

Commercial Bank are those financial institutions, which deal in accepting deposit of perform and institutions and giving loans against security primarily for the purpose of earning profit. They are considered as the heart of the financial system.

According to shekher: commercial bank can be either of the branches or of the unit banking type, as we see in most of countries with a large, network of branches or of the unit of banking type, as we see in the united states, where bank operations are confined to a single office of to a few branches with in strictly limited area. **(Shekhar: 1994:4).**

According to Nepal company Act 2031 B.S.:" A commercial bank refers to such types of bank which deals in money exchange accepting deposits advancing loans and commercial transaction except specific banking related to co-operative, agriculture, industry and other objectives".

According to commercial bank Act 1974:" A commercial bank is on which exchanges money, deposits money accept, deposits grants loans and performs commercial banking function and which is not a bank meant for co-operative agriculture industries for such specific purpose" (**commercial Bank Act 2031:1)**

1.2.2 Commercial Banks and Economy:

Commercial banks are the main source of finance. There is no debate about the significant role that the banking sector will play for the development of the countries. Without the development of commercial banking, underdeveloped countries cannot hope to join the ranks of advanced countries. If industrial and business development is required for the strengthening of economy of the country them the commercial bank comes first priority list. So, the capital equipment will not be possible without the existence of banks to provide the necessary to acquired capital.

Some important of the commercial bank for the national economies are given below:

- Help in business expansion
- Transfer of surplus funds to needy.
- Help in trade and industry.
- Promotion of the capital formulation.
- Encouragement of the right type of industries.

1.3 Nepal Bank Ltd.

Nepal bank limited is the first and oldest commercial bank in the history of modern banking system of Nepal. The bank was established on 30th of Kartik, 1994 B.S. (1937 A.D) under the technical assistance of imperial bank of India under "Nepal Bank Act." Initially it was established with 41% Share of government and 59% of private investment with the authorized capital of 1 corer. Now its authorized capital of Rs. 100 cores, issued capital is Rs. 50 corer and paid up capital is Rs 38 corer. The government owned 51% of the shares in the bank and controlled its operation and remaining 49% of shares are contributed by public sector.

Nepal Bank Limited plays significant role in the banking sector. It has been increasingly making its effort to extend its activities; the bank has been providing large amount of funds to trade, commerce and industries and also raising a long-term capital from different resources. Bank seems to be ready to grant much more than loan, advance and other facilities against client's insufficient deposits. Unsecured loan and investment may effects the liquidation of Bank. If the fund are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot obtain profitable return as well as it should sometimes losses its principle recently Nepal Bank Limited such problem caused by bad loans, which is the result of wrongly planning:

- Displacement of NBL service by foreign invested bank service.
- Declining in deposit collection.
- Interest are on deposit also is declining yearly.

- Low standard services.
- Unsound management
- Over staffing
- Manual working system

As it is studied earlier that banking sector development is very useful for the country. So, it's necessary to know the financial performance of the bank. Financial performance and conditions are important components of the bank's performance. Strong financial performance and same financial condition are critical to a bank's ability to provide necessary services. So, it gives answers to the issues as how for the bank has been managing its position.

1.4 This Study will try to work on following question:

- What are the main factors affecting revenue planning of NEPAL BANK LIMITED?
- Whether the liquidity positions of the bank in satisfactory or not?
- Whether the bank has effectively utilizing its assets in generating revenue of not?
- What are the financial positions of the firm in the market?
- What level of revenue has maintained by the bank?
- Whether the bank has been utilizing its capital in effective manner of not?

1.5 Objective of the Study

The specific objectives of the study are:

- The evaluate the soundness of profitability and operating efficiency of Nepal Bank Ltd.
- To highlight the current revenue planning premise adopted and its effectiveness in Nepal Bank Ltd.
- To study the growth of the business of the Bank over the period.
- To provide suggestion and recommendation of improvements of the overall profitability of the bank.

1.6 Significance of the Study

This study is important for all the people who try to know the fact about the Nepal Bank Ltd. This study will be valuable to persons and parties such as shareholders, management of the bank, stockholders, and financial institutions, general public and other policy-making parties. This is helpful to know the bank is performing its activities from last ten years. The significance of the study can be pointed like below.

- To ensure that whether the bank is properly utilizing its assets in revenue generated sectors.
- To know the productivity of its capital.
- To develop its strength to complete in the market and boost up its reputation.
- As a reference in the future that the viewer can be able to clarify the financial states of the bank.
- Finding the way of providing the best services to its customers

1.7 Organization of the Study

This study entitled "Revenue Planning of Nepal Bank Ltd" is analytical study. The study is divided into five chapters:

Chapter-I: The first chapter is introduction part, which contain general background, statement of the problem, focus of the study, objective of the study, importance of the study, limitation and designation of the study are given.

Chapter-II: The second chapter is the part of literature review in which articles; journals and abstract of the previous researches done on the related topic are situated.

Chapter III: Third chapter of the study is research methodology in which the sources of the data, population, sample and statistical and financial tools used to analyze the data are given.

Chapter-IV: Presentation and Analysis of Data: This chapter is one of the main chapters of the study. It includes almost data and graphs are interpreted in such a way so that the objectives of the study can be achieved.

Chapter-V: Fifth chapter of the study is of summary and conclusion part in which the major findings of the study are summarized from the fourth chapter of the major.

In the **Bibliography** part he brief introduction of the previous researches, journals and referred books used in this study are situated. Documents compile sheets, calculation etc are separately shown under appendices.

1.8 In this dynamic world nothings existing are free from limitation: This studies also not an exception. The researcher has however tried to eliminate the limitations to the best possible extent, yet it suffers from the following limitations:

- The study covers the related data of the Bank from F/Y 057/58 to 063/064 only.
- Primary data is collected aspect of the bank has been analyzed, behaving other areas uncovered.
- The study is made fro-partial fulfillment of the requirement of masters in business studies, in a short duration of time. Therefore only Nepal Bank Ltd has been taken for this study.
- The accuracy of this is based on the data available from the management of Nepal Bank Ltd, the various published documents of the Bank and the response made by the respondent during the informal discussion.

CHAPTER - TWO

REVIEW OF LITERATURE

2.1. Introduction

In this chapter the researcher has presented the conceptual framework about the commercial banks, its activities, banking practices worldwide and within the country, the legal and regularly framework, and profit planning concepts and its applicability in commercial banking activities. In this connection, the researcher has reviewed various literatures in the form of books written by various prominent authors, published newspapers, journals, browsing materials from the concerned web previous dissertations in the relevant subject matters etc.

2.2 *Commercial Banks as a Concept*

By the term 'Bank', simply understand it as a place where keep our money for safe keeping as well as for earning some interest or the place from where borrow the money as loan. As regard to the borrowing money from the Bank may consider its function as that of a moneylender in society. But a bank and a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources.

Meaning of 'Bank' in Oxford Dictionary says ' an establishment for keeping money and valuable safely, the money being paid out on the customer's order (by means of cheques).' (Hornby, 1992)

The Rendom House Dictionary of the English Language defines the bank as 'an institution for receiving money and, in some cases, issuing notes and transiting other financial business (Stein & Undang, (1985).

Banks refers to an institution, which perform the activities related with money and credit. Banks have been traditionally regarded as merely the purveyor of money. But today they are not merely purveyor of money but creator or manufacturer of money in the system (vaish, 1996). Maclead, in his book 'theory of credit' has defined the bank not only as an institution, that borrows and lend money but also the institution for creating credit (Maclead, 1983).

In the opinion of **Sayers**-"Banks are the institution whose debts usually are referred to as bank deposit and are commonly acceptable in final settlement of other people's debt" (Sayers, 1967). He has taken the bank deposit as the debts owe by bank and that particular depositor can set off his creditor by the deposit in the bank to the extent of his deposit amount.

The Commercial Bank Act 2031, under which commercial banks in Nepal are established and operated, has defined Commercial Bank which exchanges money, accepts deposit, advances loans and performs other commercial transactions and which is not specifically established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose. (Commercial Bank Act, 2031)

The Act has defined the commercial bank on the basis of its objectives and activities. Referring to the act, a commercial bank:

- Should not be established with a specified objective of co-operative, agricultural, industrial or any of such kind of specific purpose.
- Should accept customer deposit
- Should advance loans and make investments
- Perform commercial banking transaction.

The same Act has described the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company Act as a limited liability company only with the recommendations of Nepal Rastra Bank, the Central Bank of Nepal (Commercial Bank Act- 2031).

Afterward, more commercial banks were opened under foreign joint venture of foreign best/finance with private sectors in Nepal which had contributed a lot to bring the commercial banking at present day position.

2.3 Activities of a Commercial Bank

Traditionally the primary activities of a bank are essentially accepting deposits and making loans and advances. Commercial Banks are found to be having been defined by their activities.

As per the Commercial Banking Act 2031, a 'Bank' is a commercial bank established under this act and 'banking transactions' and the activities of accepting deposits from the others for the purpose of lending or investing, repayable on demand or after some stipulated time period by means of generally accepted procedure. (Commercial Bank Act, 2031)

Similarly, Which book has also quoted Sir John Paget's saying as "No person or body corporate or otherwise, can be a banker who does not; (i) take deposit accounts (ii) take current accounts (iii) issue and pay cheques drawn on himself and (iv) collect cheques for his customer."
(Gulshan & Gulshan, 1994)

From above points, it is clear that a commercial bank's primary activities are two fold viz. one that of accepting deposit from public, which is the major source of the resources of the bank and another making loans and investments which is basically creating income yielding asset of the bank for fulfillment of its commercial objectives.

The primary activities of a commercial bank has categorized in two folds as below:

1. Mobilization of Resources &
2. Deployment of Resources

2.3.1 Mobilization of Resources

Resources of a commercial bank constitutes, as like in other business institutions,
(a) The owners fund and (b) The borrowed fund.

A Owner fund or capital fund

Owner fund of the bank is the capital fund, which includes paid up capital, reserves, retained earning, share premium, non- redeemable preference share. Apart from those mentioned above other reserves and provision items allocated out of profit of the bank are also considered as the supplementary capital fund. Owners' fund is the most dependable source of bank's liquidity.

As per Central Bank (NRB)'s guideline, a commercial bank must have paid up capital of Rs. 500 million in order to be established as a national level commercial bank. Further the NRB has also prescribed the capital adequacy norms (the ratio of capital fund to the risk assets as per varying weight assets) to be of at least 20% by the end of Fiscal year 2063/064.

The Borrowed fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other bands and/ or central bank.

A. Customer Deposits

Customer deposits are the chief source of commercial bank's resources. It is so much important for a bank for its liquidity supply that banks are often engaged in keen competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon it's capacity to mobilize deposits. Deposits in the banks are accepts from their customers in various types of account opened in banks by the depositors.

The total deposit of a bank is composed of demand and time deposits. The demand deposits are most volatile and can be withdrawn at time by their depositors subject to the general rules of the banks governing these deposits. Generally no interests are paid into those accounts.

Demand deposits are usually accepted in current accounts. A current is running and active account which may be operated upon any number of times during a working day. As per commercial banking act of Nepal a current account is the bank account having money, which is subject to repayable whenever demanded. These accounts are suitable for businessman, joint stock companies, institutions, public authorities etc.

The time deposits consisting fixed deposit and partly of saving deposit are called so because these can be withdrawn only after the expiry of the stipulated period for which these have been made. Banks offer interest on these accounts varying the duration of deposit maturities. Time deposits are kept by generally by individuals, educational institutions, charitable trusts and others having surplus fund for future saving and earning some regular return on it.

The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (commercial bank act-2031). Banks generally impose certain restrictions on withdrawal from such accounts.

Fixed deposit accounts are opened by the bank in the name of the depositors keeping fixed deposits. Amount in such are called time liabilities of the bank because the money is payable on the expiry of a fixed period of time which the depositors as per his convenience.

The commercial banking act 2031 defines fixed accounts account as the "bank account, which is having money in it for of specific period of time."

C. Other Liabilities

Resources other then the capital fund are customer deposits are the other liabilities of the bank. It includes short-term borrowed fund from other banks locally or foreign and central bank. Such borrowings are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity crunch in the bank. The rates of interest on such borrowing depends on the prevailing inter bank interest rate.

Other liabilities also include the payables in the account of the bank, which has been arisen during the regular operation of the bank.

2.3.2 Deployment of resources

Deployment of resources of the bank means utilization of the bank's fund in such a way that it ensures liquidity as well as gives some earnings for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio, which meets above requirement in the best way. In fact the efficiency of a banker is reflected by this activity.

Thus for a banker, deployment of the available of the resources is a challenging job, because the liquidity and profitability are the consideration to each other. M.C. Vaish, in his book 'money Banking trade and Public Finance' has rightly said, "the secret of successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance is stuck between the opposing consideration of liquidity and profitability. the sound balance will be achieved when the bank has sufficient (and no more then sufficient) cash in hand to meet every claim that is or is likely to be made be its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders. (Vaish-1996)

A. Assets Portfolio for Liquidity

Liquidity in bank means its capacity to convert its deposit of a bank's resources constitute customer deposit which are subject to repayable on demand or after some times as the case may be, a banker can not afford to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance as their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objective of the bank as idle cash gives no return rather it involves the cost of carrying (insurance cost, guarding cost etc).

The central bank fixes the mandatory cash reserve ratio (CRR) from time to time. Current CRR fixed by NRB for commercial banks is as below.

(i) Balance to be maintained at NRB account: At least 9% of current and saving deposits amount and 5% of fixed deposit amount.

(ii) Balance to be kept in bank's vault: at least 4% o total deposit liability. (NRB circular 2007/2008)

(Sources: Directives of Nepal Rastra Bank, Banking operation Department 2008)

B. Investments

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. such investments can easily be liquidated if required thus has a feature of liquid assets as well as giving some yield out of it also. Therefore it is second line in terms of liquidity apart from cash and balance at NRB.

C. Loans, Overdrafts and Discounts (LDO)

Banking business essentially involves lending. In fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. Banks being a business proposition, it must declare handsome dividends to its shareholders. Unless the profit outlook of a bank is bright, new funds will be difficult to obtain (Vaish, 1996).

Commercial banks generally lend for short-term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful should be extra careful in selecting the borrowers; generally banks lending is guided by their lending policies. General principles of a sound lending policy of a bank are as follows: (Gulshan & Gulshan, 1994)

Generally banks make their advances in the forms of loans, overdraft, cash credits and bills discounting.

- In a loan account, the entire amount is disbursed to the borrower, which is repayable in installments or in lump sum on the expiry of loans. Interest is charged on the entire loan disbursed to the entire loan disbursed to the borrower. the types of loans may be pledge loan, demand loan, hire purchase, import finance (transit loans), export finance (packing credit), loan against fixed deposits, against government securities, against shares etc.

- Overdrafts are granted in current account of a customer. it is the permission given to overdraw from the account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. Normally such facility given against the security of collaterals, fixed deposits, government securities, shares, life insurance policies etc.

- Cash credit are similar to overdraft in terms of operation but it is provided to the borrower as working capital finance, normally to traders, industrialists, farmers etc. in cash credit facility, unlike in loans, the borrower shall enjoy the flexibility of drawing the amount up to the sanctioned limit anytime they require fund during the validity of limit. As the interest is charged only to the actually utilized amount on daily basis, the borrower can repay instantly upon receipt of proceed in order to minimize their interest liability. Generally such facilities are availed against security of pledge or hypothecation of stocks of trade commodities along with collaterals.

- Discounting of bills by a Bank actually is buying the bills of borrower, which are self-liquidating nature by means of endorsement on the documents, the title on the payment upon liquidity transferred in favor of the bank that discount it. Bills may be clean or documentary. if it is a clean negotiable cheques., drafts, bills of exchange payable at sight or after certain tenor, then it is called clean bill and if the instrument is accompanied with other trade documents (commercial invoices, transport documents etc) it becomes the documentary bill. Bills discounting is short-term credit availed by the bank in which bank gives the value of the bill (called negotiation) deducting some amount (usually the interest until the period of its possible realization) from the face value.

Concept of Spread

Deposit mobilization activity of banks is a costly affair. The bank has to incur expenses toward payment of interest on the bearing deposits accepted by the bank. Such expenses is called interest Expenses. For a better profitability, a business concern should be careful in minimizing its cost. In case of a bank also, as the interest expenses from a bulk in total cost of the bank, a successful banker pays adequate attention toward lowering its interest cost by marketing low cost deposits and building optimum portion of interest free deposits in his deposit mix.

Deployment of resources in income generating assets (loans and investment) is the income yielding activities of the banks. Higher the proportion of loan and advances in the asset portfolio, higher will be the on fund. As the interest income is the major contributor of income of a bank. The banker should be careful in realization of interest and enhance the profitability. The difference of interest earned from lending and interest expenses incurred in deposit is called the spread. In other words spread is the net income of the bank from which banks have to meet their other operational costs and give out the dividends to the shareholders. A banker can attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on fund. But as per the current regulatory provision of NRB, the interest spread of a bank can be maximum of 5% only. (BOD, NRB, 2008.)

Concept of Burden

During the establishments and operation of a bank, it has to incur various kinds of expenses besides the expenses incurred for interest payments. Such expenses are employee's expenses. administrative expenses, depreciation on fixed assets, other operating expenses, expenses for loan loss provision, interest suspense expenses, employ bonus expenses, expenses for income tax provisions etc. all such expenses other then interest expenses cumulatively from a burden to profitability. The spread earned by the bank must be at least enough to meet the burden in order to break even. However the other income (income other then interest income) earned by the bank from their other activities besides fund lending contributes to lowering the burden thereby increasing of the profitability of the bank. Therefore the net burden (other expenses less other income) has been termed as burden.

2.4 Components of Profit Planning and Control

2.4.1 Profit

2.4.1.1. Meaning and Concepts of Profits

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

Astringing to some theories, profits are the factor payment for taking the risk for agreeing to take what is left over after contractual outlays have been made.

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

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

2.4.1.2. Long Range and Short Range Profit Planning

Long range and short range profit plans means strategic and tactical profit plans respectively the two types of profit plans are developed in PPC. "The strategic profit plan is broad and it usually encompasses three or more years in the future. The tactical profit plan is detailed and encompasses on one year time horizon the up coming year. The development of strategic and tactical profit plans each year is a process that involves managerial decision and ideally a high level of management participation" (Welsch 1999)

2.4.2 Planning

2.4.2.1. Meaning and Concept of Planning

Planning is the basic foundation of PPC. We should be clear in the concept of planning "According to the Oxford Dictionary, Planning means.

- (To do something) arrangement for doing or using something, considered or workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme
- Go according to plan (Hornby - 1992)
- "Planning is deciding in advance what is to be done if future" (Bhusan - 1976)

Planning is a method of a course of action to achieve a desired result. And it is a method of thinking out acts and purpose before hand. Planning stars from forecasting and determination of future events. It is the first function of management and all other functions are performed with the framework of planning.

"Planning is the process of developing enterprises objective and selecting a future course of action to accomplish them. It includes developing premises about him environment in which they are to be accomplished" (Welsch - 1999)

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

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

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

"Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny." (Pandey - 1991)

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

"In planning the manager fixes the objectives of the organization as whole and in the light of this, the goals of the various department of the organization. Then, he proceeds to prepared a king of blue print mapping out he ways of attaining these objectives naturally then all other functions of the manager depend upon planning" (Bhusan - 1976)

Planning is the backbone function of the management. Hence, we can pint out the nature of planning.

- Planning is an intellectual process.
- Planning is a goal oriented task
- Planning is a primary function of management.
- Planning pervades all managerial activities.
- Planning is directed towards efficiency

2.4.2.2. Long Range and Short Range Planning

Long range planning is closely concerned with concept of the organization as a long living institution. It is most important for broad and long living enterprises. Long range planning verifying five to ten years with the enterprises is sometimes extended to ten years. Strategic planning is one of the most difficult times span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction.

And the practices which a comprehensive long range plan provides. The short term planning is limited time dimensions usually it covers one years time period. Short term planning is used by the management as a substantial part of the long range plan.

2.4.2.3 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives.
Corporate planning is one part of profit plant. It was first started in the USA in 1950 and it is however being used in one form or another in many companies there.

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

- Before drawing up a plan which designed to do something, decide what you want it to do.
- In these days of repaid change it is necessary to look ahead as far as possible to anticipate these changes.
- Instead of treating a company as a collection of department, treat it as a corporate whole.
- Take full account of company's environment before doing up any Plan. (Robertson-1968)

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

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

2.4.3. Forecasting

The forecasting is to take future decision at present form by the analysis of relevant factors of past and present. Forecasting is not only imagination or guess matter it is related with certain assumption. Its main aim is reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

According to I.M Pandy "It should be realized that budgeting is not merely forecasting although forecasting is form of the basis of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involved the determination of what should be done how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides orderly way to attain goals and also provides a time schedules for future action to produce. Measure result" (Pandey1991)

When an estimate of future conditions in made on the systematic basic, the process in referred to as forecasting. Its aim is to reduce the areas of uncertainty that management decision making with respect to cost and capital investment.

2.4.4. Forecasting Vs Planning.

Planning and forecasting often are confusing of being the same. But they are not same. Although related.

The nation that planning and forecasting are different functions deserves special mentions here. Forecasting is generally used to predict what will happen, given a set of circumstances assumptions. Planning on the other hand. Involves the use of forecast to help to make good decision about most attractive for the organization. This a forecast seeks to describe what will happen where as a plan is based on the notion that by taking certain action how the decision maker can affect subsequent events in a given situation and thus influence the final results, in the direction desired. Generally speaking, forecasting and forecasts are inputs to the planning process.

2.4.5. Control

After being clear about the concept of profit and planning we move towards the there components of profit planning and control i.e. control the director nary meaning of control is;

1. Have a power or authority over some body or something
2. Regulate something
3. Management, guidance, restriction
4. standard of comparison for checking the result of the experiment (Hornby- 1992)

Controlling can be defined as a process of measuring and evaluating actual performance of each organization component of an enterprises and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objective, goals policies and standards planning established the control is exercised by using personal evaluation periodic performance reports and special reports.

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

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

i. Compare actual performance for the period with the planned goals and standards

ii. Prepare a performance report that shows actual result planned result and any differences between the two(i.e. Variation above or below planned result)
iii. Analyze the variations and the result operations to determine the underlying cause of the variations.
iv. Develop alternative course of action to correct any deficiencies and learn from the successes.
v. Make a choice (corrective action) from the set of alternative and implements it.
vi. Follow up to appraise the effectiveness of the correction. Follow with feed forwarded for re-planning" (Welsch -1999)

The comparison of actual result with planned goals and standard constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback. The fact shown in a performance report cannot be changed however the historical measurement may lead to improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirement in the overall control process, namely (1) feed forward-to provide a basis for control at the point of action

(2) Feedback-to provide a basis for measurement of the creativeness of control after the action has taken place. Moreover, feedback is instrumental in re-planning.

Budgetary Control

2.5.1 Meaning of Budgeting and 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". (Pandey -1991)

"As regards the term 'Budget' 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 I respect of some future period." (Gupta 1992)

A budget is a forecast, in detail, of the results of an officially recognized programmed of operations based on the highest reasonable expected operating efficiency.

"Budget is defined as a comprehensive and co-ordinate plan, expressed in financial terms for the operations an resources of an enterprises for some specified period in the future" (Fremgen -1976)

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

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

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

2.5.2 Budgeting: As a Device of Profit Plan

Budgeting is a forward planning. It serves basically 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. Glover 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 tool in the hands of management. Since, budgeting deals with fundamental polices and objectives, it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower employees have to understand the goals and support them and co-ordinate their efforts to attain them.

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

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

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

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

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. This can be ensured only by having an adequate and planned accounting system in the firm.

C. Efficient Organization with Definite Lines of Responsibility

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

D. Formation of Budget Committee

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

E. Clearly Defined Business Policies

Every budget reflects the business policies formulated by the top management. In other words budgets should always prepared taking in to account the policies set for particular department of functions. But 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 to each member of the management team towards it should starts preferably form top i.e. chairman. The enthusiasm for budget operation as well as direction for it should initiate and come from top.

H. Good Reporting Systems

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

2.5 Fundamental concepts of profit planning

The fundamental concepts of PPC includes the under using activities or tasks that must generally be carried out to attain maximum usefulness from PPC.

These fundamentals are:

a. Managerial involvement and commitment
b. Organizational adaptation
c. Responsibility accounting
d. Full communication
e. Realistic expectations
f. Timeliness
g. Flexible application
h. Zero base budgeting
i. Activity costing
j. Behavioral view point
k. Management control using PPC
l. Follow up
m. Management by exception

Each of these fundamentals is discussed briefly in the following paragraphs. And it is tried to proof to what extent they are playing the role to make PPC a meaning full and a comprehensive approach.

2.6.1 Managerial involvement and commitment

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

A. Understand the nature and characteristics of profit planning and control.
B. Be convinced that this particular approach to manage is preferable for their situation.
C. Be willing to devote the effort required to make it operative.
D. Support the program in all its ramifications.
E. View the results of the planning process as performance commitments.

For the comprehensive profit planning and control (PPC) program to be successful it must have the full support of each a members of management, starting with the president the impetus and direction most come from the very top.

2.6.2 Organizational adaptation

In the word of Welsch, a success of the PPC program must rest on sound organizational structure, for the enterprises and a clear-cut designation of lines of authorities and responsibilities of all the department of an enterprise. The responsibility of or the obligation of each departmental manager should be well clarified. Whatever may be the nature and sense of organizational structure, on should always bear in mind the fact that no organizational structure can be taken as ends itself but it should always be treated as means or tools to attain the goal. In conclusion the organizational involvement includes:

Delegation of authority and responsibility to each functional sub units.

a. Sub-divide the whole organization into different functional subunits.
b. Each subunit should prepare its own annual or periodic plan.
c. Based upon plan prepared by subunits a master plan is to be prepared by higher management.

2.6.3 Responsibility Accounting

The accounting system of any organization should build the responsibility structure of the firms. This is called responsibility accounting. Organizations' planning is based on historical data, which are largely generated by the accounting system, and control includes the measurement of actual results against objectives goals and plans by an account. Therefore PPC requires responsibility accounting system.

2.6.4. Full Communication

Communication can be defined as "An interchange of thought or information to bring about a mutual understanding between or more parties".

Communication can be either of dialogue messages or understanding from working together. Although most of the management gives least importance on communication but is the most important thing for any organization observation and control. Most of the organization faces lot of problem due to bad communication system. (Welsch-1999)

The goals and objectives set by management should be well communicated in all levels management. PPC program can only be successful when the communication is done in fully manner.

2.6.5. Realistic Expectation

In PPC the management must be realistic and avoid either undue conservation or irrational optimism. The care with which budget goals and objectives are set for such items as sales, production, cash flow and so on determines the success of PCC program. So for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

2.6.6. Timeliness

Time and tide wait for none' whether an individual or an entity is idle or busy time passes at the same rate. If the planning function is to be effectively carried out, one relation is to the concept of planning horizons and the other is to the timing of planning activities.

Planning horizons refers to the period of time into the future for which management should plan. Decisions made to the organizations obviously can affect only the future. No present decisions can effects or change the past, since all managerial decisions are futuristic each management is faced with the basic question of time dimension. The effective implementation of PPC concepts requires that the management of ES establish a definite time dimension for certain types of decision. And timing of planning activities suggests that there should be a definite management time schedule established for initiating and completing certain phases if the planning process. (Welsh-1999).

2.6.7. Flexible Application

'This stress that a PPC program must not dominate the business and that flexibility in applying the plan must be forthright management policy. So, that strait Jackets are not imposed and all favorable opportunities are seized even through "They are not covered by the budget. Rigidity in practicability will be the harmful boundary in an association in an occasion for the enterprises. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of that organization." (Welsch-1999)

2.6.8. Zero Base Budgeting

"Under zero base budgeting, every budget is constructed on the premise that every activity in the budget must be justified. It starts 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 costs and benefits. The discipline of zero base budgeting takes a different approach, in fact, a reverse approach to this problem of justifying everything. What it says is this; Begin with where you are and establish a business as usual budget for nest year the same way and the same things you would do if you weren't concerned about concerned about constraint and total justification." (Welsch-1999)

2.6.9. Activity Costing

"Responsibility accounting system generally accumulates costs by department and product-costing systems associate costs with units of product or service organization also frequently finds it useful to associate costs with activities. By decomposing an organizations production process into discrete set of activities, and then associating costs with each of those activities. Moreover, by systematically identifying the activities though out the organizations mangers can identify redundant activities." (Welsch-1999)

2.6.10. Management Control

"The primary purpose of control is to ensure attainment of the objective, goals and standards of the enterprises. Control has many facets such as direct observation, oral express, policies and procedures, reports of actual results and performance reports. PPC focuses on performance reporting and evaluation of performance to determine the causes of both high and low performance. The essential characteristics of a PPC performance reports are as follow." (Welsch-1999)

1. Performance is classified by assigned responsibilities
2. Controllable and non controllable items are designated
3. Timely reports are issued.

Emphasis is given to a comparison of actual results and planned results the performance results should be designated the responsible manager and show actual results.

2.6.11. Behavioral View Point

"An ounce of behavior is better than a quintal of the theorem" what so ever be the theory and theorem, the organization only when it improves its behavior, is best or in another way.

Welsch has suggested that the motivationo9f human resources through dynamic leadership is central to effective management. It is found by many psychologist and educators and businessmen that, there are many known and unknown, misconception and speculations concerning the responses of the individual and the group in the varying situation so the PPC programs bring many of these behavior problems in the sharp focus and trying to resolve.

2.6.12. Management by Exception

"A comprehensive profit planning and control program facilitates in many ways, underlying these is the measurement of actual performance against planned objectives goals, and standards and the reporting if that measurement in performance reports. This measurement and reporting extends to all areas of operations and to all responsibility centers in the enterprises. It involves reporting (1) actual result (2) budgeted or planned results and (3) the differences between the two. This type of reporting represents an effective application of the well-recognized management exception principle. The exception principle holds that the manager should concentrate primarily on the exceptional or unusual items that appears in daily, weekly and monthly reports, thereby living sufficient managerial time for overall policy and planning considerations. It is the ' out of line' that need immediate managerial attention to utilize extensive management time, how ever, they should trigger "rewards" in appropriate "rewards" in appropriate ways. To implement the exception principle, techniques, procedures must be adopted to call the manager attention to 'out of control' items. Performance reports because they include a comparison of actual results with plans by area of responsibility, emphasize in a relevant ways performance variations. The out of line items stand out. It is with respect to these items that the busy executive should investigate, determine the causes and take corrective action." (Welsch-1999)

2.6.13. Follow Up

This fundamentals holds that both good and substandard performance should be carefully investigated the purpose being three fold.

1. In the case of substandard performance, to lead in a constructive manner to immediate corrective action.
2. In the case of outstanding performance, to recognize it and perhaps provide for a transfer of knowledge to similar operation and
3. To provide a basis for better planning and control in the future. (Welsch-1999)

2.7. Profit Planning and Control Process

"A PPC program includes more than the traditional idea of a periodic or master budget. Rather, it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps." (Welsch-1999). These steps are out lined in this study in the following manner.

2.7.1. Identification and Evaluation of External Variables.

The variable identification phase of the PPC process focuses on (1) identifying and (2) evaluating the effects of the external variables. Management planning must focus on how to manipulate the controllable variables and how to work with the existing situation of non-controllable variables. Variables, which have a direct and significant impact on the enterprises, are called relevant variables. Variables may have their different relevancy according to the market nature. For the enterprises purpose the external relevant variables are, population, G.N.P. competitive activities product line, and industry sales. And so far internal variables are concerned employees, capital, research productivity, pricing, operating costs, advertisements etc. A particularly significant phase of this analysis includes an evaluation of the present strength and weakness of the enterprises. The comprehensive PPC approach is based on the expectation that enterprises. The comprehensive PPC approach is based on the expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in orderly manner. (Welsch-1999)

2.7.2 Development of the Broad Objectives of the Enterprises

Development of the broad objectives of the enterprises is a responsibility of executive management. Based on a realistic evaluation of the relevant variables and an assessment of the strength and weakness of the organization, executive management, can specify or restate this phase of the PPC process.

The statement of broad objectives should express the mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identity continuity of purpose is to provide and definition. One research study listed the purpose of the statement essentially as follows.

1. To define of the purpose of the co.
2. To clarify the philosophy character of the co.
3. To create particular climate with in the business.
4. To set down a guide for managers so that the decisions they make will reflect the best interest of the business with fairness and justice to those concerned.

2.7.3. Development of Specific Goals for the Enterprises

This component of a comprehensive PPC process is to bring the statement of broad objectives into sharper focus and to move from the realm of general information to more specific planning information. It provides both narrative and quantitative goals that are definite and measurable. These are specific goals that relate to the enterprises as a whole and to the major responsibility centers.

These goals should be developed by executive management as the second component of the substantive plan for the up coming budget year. Executive management should exercise leadership in this planning phase so that there will be a realistic and clearly articulated framework with in which operations will be conducted toward common goals.

2.7.4. Development and Evaluation of Company Strategy

Company strategies are the basic thrusts ways and tactics that will be used to attain planned objectives and goals. Some examples of basic strategies.

- Increase long-term market penetration by using technology to develop new products and innovation the product.
- Emphasize product quality and price for the top market
- Expand market the company will not enter foreign markets in the foreseeable future.
- Market with low price to expand value
- Use both institutional and local advertisement program to build market share.
- Improve employee morale and productivity by initiating a behavior management program

Among probable alternative, the best should be chosen which would tackle to the objectives and goals of the organization. Strategies focus and 'how' so that they outline a plan of action for the enterprises.

2.7.5. Executive Management Planning Instruction

Executive management explicitly establishes a planning foundation that is a condition precedent to the movement in the planning process. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions and is disseminated in order to initiate a sophisticated and potent move from broad corporate planning to the development of profit plans by each major responsibility center in the enterprises. It is simply a communication steps from executive management to the lower levels of management and it should adopt the fundamentals of full communication.

2.7.6. Preparation and Evaluation of Project Plans

Periodic plans and project plans are different in feature and functions. It will be recalled that project plans encompasses different time horizons because each project has unique time dimension, they encompasses such items as plans for improvements of presents, products, view and expanded physical facilities, entrance in to new industries unit from products and industries and new technology and other major activities that can be separately identified for planning purpose. The nature of projects is such that they must be planned as separate units.
Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan status of each project in process and select any new projects to be initiated during time dimension covered by the up coming strategies and tactical profit plans.

2.7.7. Development of Strategies and Tactical profit plan

When the managers of the various responsibility centers in the enterprises receive the executive management planning instruction and the projects plans, they can begin intensive activities to develop their respective strategic or tactical profit plans. The strategic and tactical profit plans are usually developed concurrently. Certain format and procedural instructions should be provided by a centralized source, normally the financial functions, to establish the general format, amount of detail and other relevant procedural procedural and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of this activity must be co-ordinate among the centers in conformity wit the organization structure.

When the two profits for the overall enterprises are complete, executive management should subject the entire planning package to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be developed under the circumstances. When this point reach the two profit plans should be formally approved by the top executive and distributed to the appropriate managers."

2.7.8. Implementation of profit plans

That profit plans strategies should be implemented by every level management is an accepted norm. Implementation of management plans that have been developed and approved in the planning process, involves the management functions of leading subordinates in attaining enterprises objectives and goals. Thus effective management at all levels requires that enterprises objectives, goals, strategies, and policy to be communicated and understood by subordinates. There are many facets involved in management leadership. However the comprehensive PPC program may aid substantially in performing this function, plans, strategies and policies foundation for effective communication. The plan should have been developed with the managerial conviction that they are going to be met or exceeded in all major respects. If these principles are effective in the development process, the various effective and supervisor will have a clear understanding of their responsibilities and the expected level of performance.

2.7.9. Use of periodic performance reports

Only implementing the strategy will be on no meaning when the implementation is not checked and trail whether used appropriately. So that significance has been raised that monthly and three monthly performance reports are to be prepared.

2.7.10. Follow up

It is an important part of control. Because performance reports are based on assigned responsibilities, they are the basis for effective follow up actions.

Finally, there should be a special follow up of the prior follow up actions. This step should be designed to:

- Determine the effectiveness of prior corrective actions and
- Provide a basis for improving future planning and control procedures.

2.8 Advantages and Disadvantage of PPC

The usefulness of comprehensive PPC may offer more benefits, which may be summarized as below.

1. It forces early consideration of basic policies.
2. It requires adequate and sound organization structure; that is there must be a definite assignment of responsibility for each function of the enterprise.
3. It compels all members of management, from the top town, to participate in the establishment of goals and plans.
4. It compels departmental managers to make plans in harmony with the plans of other departments and of the entire enterprise.
5. It requires that management put down in figures what is necessary for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labor material and capital.
8. It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many day-to-day internal problems through predetermined polices and clear-cut authority relationships. It thereby provides more executive time for planning and creative thinking.
11. It tends to remove the could of uncertainty that exists in may organizations, especially among, lower levels of management, relative to basic policies and enterprise objectives.
12. It pinpoints efficiency and inefficiency.
13. It promotes understanding among members of management of theirs co-workers problems
14. It forces management to give adequate attention to the effect of general business condition.
15. It forces a periodic analysis of the company
16. It aids in obtaining bank credit; banks commonly require a projection of future operation and cash flows to support large loans.
17. It checks progress of lack of progress reward the objectives of the enterprise.
18. It forces reorganization and corrective action (including reward)
19. It rewards high performance and seek to correct unfavorable performance.
20. It forces management to consider expected future trends and conditions.

PPC model should not be assumed that the concept is full proof or that it is free of problem The following main arguments are usually given against PPC.

1. It is difficult, if not impossible, to estimate revenues and expenses in our company realistically.
2. Our management has no interest in all the estimates and schedules. Our strictly informal system is better and works well.
3. It is not realistic to write out and distribute our goals, policies and guidelines to all the supervisors.
4. Budgeting places to great a demand on management time, especially to revise budgets constantly. Too much paper work is required.
5. It takes away management flexibility.
6. It creates all kinds of behavioral problems.
7. It places the management in a straitjacket.
8. Id adds a level of complexity that is not needed.
9. It is too costly asides from management time.
10. The managers, supervisors and other employees hate budgets.

What ever exists in the world has both advantages and disadvantages; and it is clear that we use or apply it only in that are if it has any advantages. P PPC model also has more advantages than disadvantages. Thus, now a days PPC system (model) is especially familiar to business organizations and widely used in this world of management.

2.9 Basic Assumptions and Limitations of Profit Plan

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

"In developing and using a profit planning and control (PPC) program, the following limitations should be kept in mind.

1. "The profit plan is based estimates.
2. A PPC program must be continually adapted to fit changing circumstances.
3. Execution of a profit plan will not occur automatically the profit plan is not a substitute for management." (Welsch-1999)

The profit plan should be regarded not as a master but as servant. It is one of the best tolls yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered an to re-plan when there are compelling business." (Welsch-1999)

2.10 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 pictures of various activities of the Bank are activity based such as budget for deposit collection, 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.

2.11. 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 ad the sustainable resources of a Bank is the customer deposit mobilization. The lending and investment activities are depended on the deposit mobilized buy the Bank. So the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is the primary function of a Bank, which has major contribution in the total resources of the Bank. In terms of cost for the Bank, customer's deposits are of two kinds, viz. (i) Interest free deposits i.e. current deposits, 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 can 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 assists having longer tenure. Therefore a proper mix of cost free and costly deposits corresponding to short term and longer term deposits are to be maintained by the Bank in its deposit mix in order to minimize its average cost of deposit at the same time having comfortable mix of income yielding assists. 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 years is set in advance with the view of optimizing the cost of deposit and the same are allocated on 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 of deferment in loan repayments by the borrower buy 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 Capital 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 item of capital fund, has to be raised every year by at least 25% of the net profit earned by the bank until the amount gets double the paid up capital. This is the mandatory provision made by Commercial Banking Act 2031.

Further, the bankers may choose by themselves whether or not to increase the owner's capital by raising the other item included in capital funds besides paid up capital and general reserves. It is always better to have a higher capital fund base of a bank because, creation of bank's assets, and the size of lending to any particular borrower are tied up with the capital adequacy requirement by the central Bank. As per NRB directives, banks shall have to build their capital base at least 20% by the end of F/Y 2063/064 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 Directives, 2008)

2.11.1 Resources Deployment Plan or Budget

The planning for deployment of resources starts from assessment of nature of resources to be mobilized. That is the assets are allocated on the basic of the nature lf resources. This approach of deployment of resources is called asset allocation approach. As M.C. Vanish write in his book 'Money Banking Trade as Public Finance', "The fundamental criterion which must be followed in allocating funds for acquiring different types of assets is that the velocity-turnover rate of different sources of supply of fund determines the appropriate maturity of the assets acquired through fund utilization, for instance while relatively stable fund, like saving deposits, fixed deposits and paid up capital could be used to buy long dated high yielding securities, demand deposit which are ore volatile, could be used to acquire relatively liquid assets like cash or money at cal and short notice on which little or no return is made by the bank." (Vaish, 1996)

Therefore the budget 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 process involves following.

1. Deployment in liquid assets
2. Deployment in higher income yielding assets
3. Deployment in higher income yielding assets.

Finds kept as cash in vault and as balance with NRB and other banks in current account are the 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 planking 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 at very low rate.

Major portion the income of the Bank comes as interest income from the resources deployed to lowna 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 affixed at various sector of economy for various kings of trades and commercial activities to various borrowers ensuring well diversification of the assets. The target are allocated to the benches, which are generally operated s separated as separate profit centers

2.11.2 Planning for non funded Business activities

The other activities of commercial banks where it does not have to involve is 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 percentage of commission on such transaction to their client who are availing these facilities from the bank.

2.11.3 Expenditure Planning

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

a. Interest Expenses
b. Personnel Expenses
c. Office operating Expenses
d. Expenses meeting the loss in Exchange fluctuation
e. Non-operative Expenses
f. Expenses for provision for staff bonus
g. 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 k9ings 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 expense 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 expenses.

Interest expenses in a bank depend on the average cost of deposit (COS) mobilization 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 ad 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 those are generally incurred by the bank during the course of its operating. Higher the volume of business transaction of a bank, higher will be the amount of its other expenses. Therefore, the expenses should be related with the business activities, which ultimately should yield in income for the bank. Such other expenses from 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.

2.11.4 Revenue plan

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

Revenues of a bank are generated in the following forms:

a) Interest income
b) Commission & Discounts
c) Dividend
d) Other income
e) Foreign exchange income
f) Non-operating income

Generally the interest income of a commercial bank holds a major portion in total revenue of the bank and it provides the major source of earning of 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 and listed above expecting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advance, 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 loan overdraft and bills Discounting together as a single asset portfolios 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 hither asset allocation into LDO higher will be the income.

The other income are generated form 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 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 the income generating activities of a bank higher will be the amount of its revenue. Therefore the bank develops its plans for various activities in such a way that is optimizing its revenue.

2.12. Implementation of the Profit Plan

2.12.1 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 development 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 so that technical accounting machines 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 o the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is on sure way of destroying much of the budget potential. Timely completion of the planning budget suggests the need for a budget calendar"(Welsch-1999)

2.12.2 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 convection that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principal is to be effective the various executive and supervisors should have a clear understanding of their responsibilities the copier of the complete profit plan be prepared and distributed to the member of executive management. The duding principal 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 in so 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 convey the profit plan to each level of management.

The manager of each responsibility center obtain as approved profit plan for his center and it becomes the basis for current operation and excerpts considerable coordinating and controlling effects.

Performance that 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 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 provides definite goal around which day to day and mouth to mouth decision are made. Flexibility in the use and application of both the profit plan and variable budget also should be considered in details. Flexibility in budget application is essential and it increases the probability of achieving or bettering the objectives" (Welsch-1999)

2.12.3. Performance Reports

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance report deal with control aspect of PPC. 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 repots, to owner & internal report are specially presented in the organization. Performance report includes in internal reports groups. It is usually prepared on a monthly basis and follows a standardize 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 performances.

Features of Performance repot.

In comprehensive PPC, performance report is very important. The main objective of performance repots in the communicating of performance measurement, actual results and the related variance. Performance reports offer management essential insight in to all the facts of operational efficiencies are:

a) Tailored to the organization structure and focus of controllability (that is by responsibility centers)
b) Designed to implement the management by exception principle.
c) Repetitive and related to short tern period.
d) Adapted to the requirement of the primary users.
e) Simple understandable & reports only essential information.
f) Accurate and designed to pinpoint significant distinction.
g) Prepared and presently promptly.
h) Constructive in tone.

2.13. *Review of previous research work*

The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could find one study that has been made in this topic by Abha Subedi (March 2001) for the purpose of partial fulfillment of the requirement for masters degree in business administration. She had studied the profit planning in commercial bank with a case study of Rastriya Banijya Bank. She had studied the profit planning aspect of Rastrya Banijya Bank. Her major findings are,

1. The rate of expenses of branches of RBB was increased after introduction of priority sector program in 2031 but the growth could not be as desired. Concentration of the branches is

more in urban areas then in rural areas. Most of the investments made against the security of land, gold and silver.

2. Banking cost is relatively higher.
3. No specific and clear investment policy and functioning without any definite direction.
4. Deposit mobilized is not properly utilized.
5. The rate of change in interest has no effect in business growth in deposit side in investment side.
6. Social objectives are met but commercial spirit is lacking in RBB.
7. RBB tired to manage in true professional way but the political environment in bureaucratic approach has compromised the commercial environment.
8. RBB has not been publishing its annual reports, balance sheets and profit and loss accounts and related schedule along with the audited reports.

Abha Joshi has recommended following major points in her study for the consideration to improve the existing situations,

1. Performance of every branch is needed to be evaluated and those having performance below satisfactory level should be closed down.
2. Reduce interest rate deposit s as to reduce the sane in lending.
3. Banking business should be free form undesirable interference from politicians and high-ranking officials.
4. Adequate training should be given to the personnel and make the operation computer system based to make the service prompt.
5. The investment policy of RBB should be in accordance with the goal of economic up-liftmen of the nation and it should also accommodate long and medium term credit demands besides the short-term loans.
6. Bank many generate profit only when maximum part deposit is invested in good parties thereby minimizing bad debt, therefore a clear-cut policy has to be set up and implemented along with adequate power delegation.
7. Bank should look for new sectors of investment as wells as for its growth.

CHAPTER - THREE
RESEARCH METHODOLOGY

3.1 Introduction

The term 'Research' is believed to be derived from the French word 'Researcher' meaning to search again. The research work is undertaken following a systematic way, which is called the Research methodology. As per Kothari, it is the way to solve systematically about the research problem.

This study has intense relation with the application of planning and control in a commercial bank with a specific reference to Nepal Bank Ltd. regarding the objectives to analyze, examine and interpret the application of profit planning in the bank. The research methodology includes; research design, data collection procedures, and research variable and tools used.

3.2 Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and strategy of the data. As per Kerlinger (1986), research design is the plan, structure and strategy of investigation conceived so as to obtained answers to research questions and to control variance. This study is an examination and evaluation of budget process in revenue planning program of Nepal Bank ltd. various functional budgets and other related accounting information's and statement of the bank are the materials to analyze and evaluate the profit planning system of the bank. Descriptive as well 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 research planning aspect of a commercial bank taking the case study of a single bank i.e. Nepal Bank ltd. and data have been analyzed for whole seven years of its operation, the population and sample term is not relevant for this study.

3.4 Data collection procedures and sources of Data

This study is mostly 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 on Nepal bank ltd. similarly other necessary data have collected from publication of the Nepal Rastra Bank, the central bank of Nepal, central bureau of statistic and related publications.

3.5 Research Variables

Loans/Advances overdrafts and bills discounted (LDO). customer deposits, total resource, total deployment, outstanding balance of letters of credit and bank guarantees, interest expenses, other expenses, interest income, other income etc of Nepal Bank Ltd are the research variables of this study.

3.6 Tools and Techniques Employed

This study is confined to examine the profit planning of Nepal Bank Ltd. therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, 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 of the regression estimates $(r)^2$, correlation, mean, standard deviation, coefficient of variance etc.

3.6.1. Financial Tools

Following financial tools have been used to analyze the data in this study:

a. ***Ratio analysis*****:** By ratio analysis we study the arithmetical relation ship of two data. In this study, we have applied liquidity ratio, capital structure ratio, activity ratio and profitability ratio of the bank.

b. ***Cost volume profit analysis:*** we study he relationship among cost, volume price and profit of the bank.

3.6.2 Statistical and Mathematical tools

We have analyzed the data presented in this study by applying following statistical and mathematical tools:

1. Percentile Increment
2. Mean
3. Standard Deviation
4. Coefficient of Variance
5. Regression Analysis
6. Test of Goodness of fit of the Regression Estimate
7. Correlation of Coefficient
8. Probable error
9. Coefficient of Determination

This research methodology adopted for this study is shown above. The forthcoming chapter includes the data presentation and analysis.

CHAPTER-FOUR

PRESENTATION AND ANALYSIS OF DATA.

4.1 Introduction:

In this chapter, analyze the Revenue planning and budgeting procedure in a commercial Bank with the specific context of Nepal Bank Ltd. To accomplish these objectives the various functional budget analysis and related data are presented in a systematic way in tabular forms and graphs charts. And data are analyzed by using statistical tools such as a mean standard deviation coefficient of variance correlation of coefficient and regression methods and budgetary tools such as ratio analysis cont volume profit analysis etc.

4.1.1 General Introduction of Nepal Bank Ltd.:

Nepal Bank limited is the first and oldest commercial bank in the history of modern banking system of Nepal. The bank was established on 30th of Kartik, 1994 B.S. under the technical assistance of imperial bank of India under “Nepal Bank Act”. Initially it was established on 41% share of government and 59% of private investment with the authorized capital of 1 core. Now its authorized capital of Rs.100 crore, issued capital is Rs.50 crore and paid up capital is Rs.38 crore. The government owned 51% of the shares in the bank and contorted its operation and remaining 49% of shares are contributed by public sector. In past. Nepal Bank Limited had 99 braches scattered over 66 districts of the country, but now its attendance is in only 52 districts over the country. During the establishment of Bank had been started with 12 employees some past it had almost 6000 employee that now 2960 employees have been working in the bank. **(Source: 70th Anniversary special, Nepal bank news, 2007)**

- The functions of Nepal Bank Ltd as described by commercial Bank Act 2031 section 12 are as follows:
- To accept deposits with or without interest under current, saving or other deposit schemes.
- To Provide loans against the collateral of government securities, movable properties, company’s shares or debentures bill of exchange, promissory notes or to invest on them
- To issue, accept, discount, buy and sell bills of exchange, promissory notes, cheque etc.

- To operate off-balance sheet operations subject to the conditions specified by the NRB.
- To make necessary arrangements of performing the functions of the commercial bank and so on.

4.1.2 General Activities of NBL:

As like in other business concerns, commercial Banks are also very much concerned about making profit because profit in the major element of each and every business endeavor for their survival further development and fosterling social expectations. In modern business the effectiveness and efficiency of the business org. and/or their managers are measured from the profit earned by them. Banks deal with money and perform several financial, monitoring and economic activities that are essential for economic development of a country. It is a service industry therefore its Profit plans are of a different format than those in a manufacturing units. Unlike the manufacturing unit, a bank has resources mobilization and deployment plan and it rims at maximizing the profit out of their activities. NBL, being a commercial Banks and also a business concern, performs various kinds of profitable banking business activities those may be listed as below:

General Activities:

a) *Acceptance deposit.*

b) *Providing loans and advances*

c) *Providing overdrafts.*

d) *Opening various types of customer accounts.*

e) *Obtaining mortgage of properties as collateral security.*

f) *Remittances. (Transfer of fund)*

g) *Opening letter of credit on behalf of their customer.*

h) *Issuing guarantees against the bidding performance of activities*.

i) *Safe custody of valuables.*

j) *Bill discounting or purchasing or collection on behalf of the customer.*

k) *Acting as executors and trustee.*

l) *Trading in securities.*

m) *Internet banking, ATM etc.*

The activities of a Bank are largely regulated by the Nepal Rastra Bank (NRB), the center bank of Nepal

4.1.3 Personal and Branch office of NBL:

4.1.3.1 Personnel:

Permanent staff:

S.NO.	Level	Post	Male	Female	Total
1)		CEO			0
2)		Deputy Executive officer			0
3)	11	Senior chief Manager			0
4)	10	Chief Manager	11	0	0
5)	9	Senior Manager	16	2	18
6)	8	Manager	51	5	56
7)	7	Deputy Manager	154	14	169
8)	6	Assistant Manager	336	72	408
9)	5	Senior Assistant	609	257	867
10)	4	Assistant	676	232	908
11)	3	Junior Assistant	13	0	13
12)		Senior peon	356	58	414
13)		Peon	16	15	31
		Total	***2239***	***656***	***2893***

Contract based staff:

S.N.	Post	Total
1)	Security Personnel	379
2)	Other	30
	Total	**409**

4.1.3.2 Branch offices of NBL:

NBL is operating from their 99 branches located at various locations in the country. Its activities are stretched from Katmandu, Biratnagar, Birgung, Pokhara, Nepalgunj of the country.

Region wise branches:	No.of Branches
Kathmandu	26
Biratnagar	26
Birgunj	15
Pokhara	16
Nepalgunj	16
Total	**99**

No. of Computerized branches = 46

(Source: Nepal Bank Ltd.)

4.2 Time period of profit plan:

As per NRB Directives, on the commercial banks have identically to follow the accounting year of 12 months beginning from 1st of shrawan to end of Ashad, which covers the last nine months of a year (B.S) to the first three month of succeeding year (B.S) NBL
Prepares the profit plans for 12 months of upcoming year, which includes the business budget revenue expenditure and profit plan for the year.

This study covers seven year's period from fiscal year 057/58 to 063/64 for its analysis, for the case of specific year's study, the data of fiscal year 2064/65 are taken to analyzes

4.2.1 Vision, Mission and Objective:

Vision: The vision of the back has been stated as Bankers with state of the art technology strive for growth with Profitability, Professionalism and excellence,"End " To remain the leading financial imitation, of the country."

Mission : Nepal Bank ltd. seeks to Provide an environment within the bank can bring unique financial value and services to all customers . It will be a sensed in situation where deposition continue to have Faith in the security of their funds are receive reasonable returns, borrowers are assured of appropriate credit facilities at reasonable Prices, other service – seeker, receive prompt and attentive are paid adequate compensation with processional career growth opportunities and stockholders receive satisfactory return for their investment.

.2.2 Values Statement: At Nepal, Bank ltd, we believe that out banking should be based on: Respect, receive and safety for the customers we serve respect, reward and opportunity for the people with whom we work Respect, cooperation and support for the economic community of Nepal.

4.2.3 Objectives of NBL:

Nepal Bank Ltd. has the following objectives:

Continue to maintain loading share of banking sector with a significant presence in all major geographical are an in the country.

a) *Provide competitive are customer oriented banking services to all customers through competent and professional staff.*
b) *Reclaim leadership within the national financial community.*

4.2.4 Shareholder Composition:

S.N.	***Ownership***	***Percent***
1)	Govt. of Nepal	40.49
2)	'A' class financial institution	4.92
3)	NRB licensed	3.42
4)	Other institution	0.52
5)	General Public	49.94
6)	Others	0.71

4.3 Strategic Profit Plan of NBL:

The strategic profit plan of NBL is reflected in. The Business budget. The business budget is a reasonable estimation of business activities to be performed and the goals to be achieved by the bank within the particular fiscal year for which the budget is prepared. For the initial few years the board used to set same broad targets and used to be limited only up to the top management level and weren't made public. The business budge co mists the total activities to be performed, broadly in terms of resources mobilization and deployments. The branch offices are considered as a separate profit centers and the business targets are allocated to them. The resources mobilization activities are generally the cost bearing activities and the revenues are generated mostly from deployment of the resources. The surplus revenue generated over the expenditure involved in the net income. Therefore, the strategic profit plan of NBL co mists the following plans:

a) Plan for resource mobilization

b) Plan for deployment of the resources.

c) Plan for non-funded business activities.

d) Revenue plan.

e) Expenditure plan.

4.3.1 Resources mobilization plan of NBL:

Here, the term resources have been used for the fund required by the bank for its activities, Banks mobilize its resources from the following séances:

a) Deposit collection

b) Loans & Barrowing from other Bank

c) Capital fund.

Among the above three sources, the deposit collection in the major source of resource mobilization. Which is in fact, one of the most important activities of a commercial Bank? Loans and Borrowing are obtained from local Bank, foreign Banks, central Bank and other financial institutions generally for a short period of time.

The capital fund in raised from shareholder's equity. This is the net worth of the Bank. Commercial Banks capital fund has been divided into two categories 6.crore capital and supplementary capital.

Following table shows the resources mobilized by the bank over the period of study.

Table No. 1: Status of Resources mobilization:*(Rupees in Million)*

Year	**Deposits**	**Loans and Advances**	**Investment**	**Office overhead**	**Interest Income**	**Interest Expenses**
057/58	35,708	212320	5462	158	2478	1957
058/059	35619	20419	6776	143	2368	1745
059/60	34265	19253	7151	158	1527	1713
060/61	35014	18132	12464	226	2200	1586
061/62	35735	17938	11021	318	1825	1026
062/063	35934	16866	14220	383	1987	749
063/064	35829	17693	14490	4321	2018	763

Operating Profit	**Gross Profit**
259	2698
15	2178
520	3071
43	252
511	710
698	1730
753	1756

(Source: NBL Annual Report 063/064)

From the above table, it is clear that the customer deposit collection contributes the major share in resource mobilization. Therefore, for this study, we have segregated total source of resources mobilization as two categories as follows.

a) *From customer deposit collection (Deposit).*

b) *From other sources than customer Deposit (RMOD).*

4.3.1.1 Deposit collection:

Customer Deposit is the most important source of Resource mobilization of the Bank. As per the data of fly 059/060 the contribution of customer deposit to total resources in as high as 89% deposit is collected from various sectors such as the general public, business entities NGOS, schools, trust and thither individuals and institutions, which quality to and account in the bank.

Deposit are collected and customers account which are opened as per the bank's policy. the Customer's deposit accounts per are of two types.

a) Interest Free Deposit accounts:

1. Current Deposit A/c
2. Margin Deposit A/C
3. Other Deposit A/C

b) Interest Bearing Deposit Accounts:

1. Saving Deposit A/C
2. Call Deposit A/C
3. Fixed Deposit A/C

Deposit collection budget of NBL:

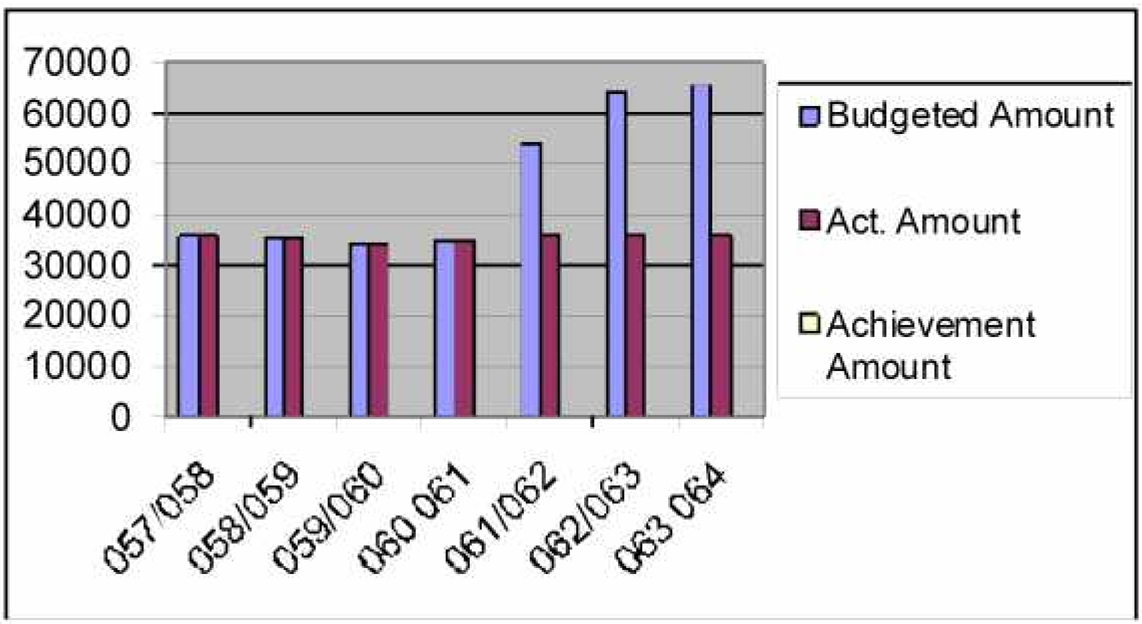
Following table shows the budgeted amount of deposit collection and the same achieved actually. Finance budgeted figure for deposit collection from F/Y 059/60 to 064/065 come not be available this study has assumed the actual figure as the budgeted amount as no.

Table No. 2 Status of Budgeted and actual deposit collection (in million)

Fiscal Year	***Budgeted Amount***	***Act. Amount***	***Achievement Amount***
057/058	35768	35768	100%
058/059	35619	35619	100%
059/060	34265	34265	100%
060/061	35014	35014	100%
061/062	54087	35735	66.07%
062/063	64376	35943	55.83%
063/064	65676	35829	54.05%

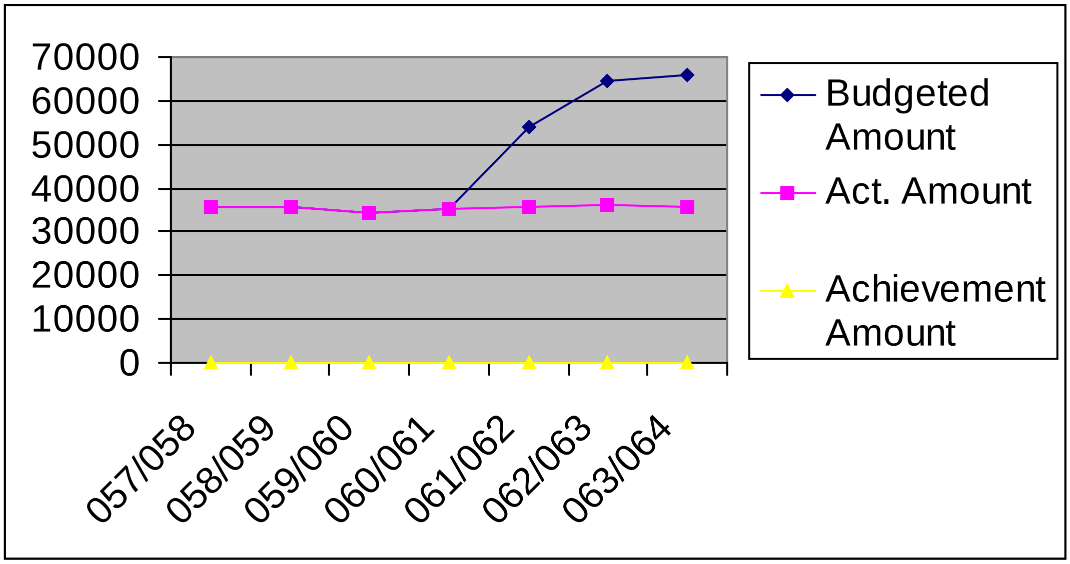
(Source: NBL, Budgeted and actual Reports)

The yearly comparative status of budgeted deposit and actual achievements are shown in the scattered and Bar diagram an below.



(Diagram No.1: Bar diagram of Budgeted and Actual deposit collection.)

Budgeted & Actual Deposit Collection:



(***Diagram No.1: Scatter Diagram of Budgeted and Actual deposit collection.)***

Above table shows that the deposit collection target has been met for 100% or less than budgeted amount for the same. This gives the picture of low level of achievement made the Bank to want deposit collection sector. The bar diagram shows the achievement level higher than the budgeted level. Similarly, in the scatter diagram, the actual line is running higher than the budgeted line. All that above pictures give the high level of performance of the Bank in deposit collection sector. The relationship between the budgeted deposit collection with that of actual from different years by the help of statistical tools that is arithmetic mean, standard derivation and coefficient of variation. The detail calculation of these statistical tools in shows in **appendix-1**

We have:,

Table No.3: Summary of the deposit collection budget and achievement.

Statistical tool's	*Bud, Deposit in Rs (x) in Million*	*Amount in Actual Deposit in Rs (y) in Million.*
Mean ($\bar{x}$)	*35452*	*46401*
Standard deviation (=±)	*604*	*13875*
C.V.	*0.024*	*0.004*

The above table shows that actual deposits are little more variable than budgeted deposits. Since the coefficient of variations of actual deposit in greater than that of budgeted deposits. Actual deposits are more variable nature. On the other hand budgeted deposits are more consistent homogeneous than actual deposits. A greater coefficient of variation is said to be more heterogeneous. Here Nepal Bank's actual deposit is the nature of more variability than budgeted deposits.

Use another statistical tool correlation coefficient to analyze the relationship between budgeted deposits and actual deposits. Budgeted deposits and actual deposits can take the help of kart person's coefficient of correlation to find correlation between actual deposits and budgeted deposits kart person's coefficient of correlation is denoted by "r". By calculating "r" we can examine whether is positive correlation between budgeted. Deposits and actual deposits or not. The actual deposits will change in the same direction as the budgeted deposits. For this purpose budgeted deposits in denoted by x and assumed to be independent variable and actual deposits is denoted by y is assumed to be dependent variable upon budgeted deposits that increase in budget is support to increase in actual achievement or vice Vera, which meant that there shows be positive correlation between budgeted figure and achievement figures. Significance of correlation of ‘r’ is tested with probable error PE. We have probable error PE=0.27. The detail calculation of ‘r’ and probable error PE is presented in appendix-1 from the appendix. We have calculated the value of ‘r’ is this figure or ‘r’ should show that there positively perfect correlation between budgeted deposits and actual deposits. We have r=0.65 and probable error PE=0.27 from the calculations shown in appendix-1, Obtained the Karl person’s coefficient of correlation ‘r’ between the budgeted deposit (x) and actual deposits (y) i.e r (x,y) be 0.65

Now the coefficient of determination which explains the change in y variable i.e. actual deposit by x variable i.e Budgeted deposit can be calculated as r^2. Therefore, the co-efficient of determination: $(0.65)^2$=0.4225.

Since r is greater than three times of probable error (0.6573x0.27) the value of ‘r’ is more significant. So it is no doubtful that actual deposits will go on same direction that budgeted deposits.

Another statistical tool, regression line can also be fitted to show the degree of relation between budgeted deposits and actual deposits and to forecast the achievement with given target. For this purpose achievement figure have been supposed to be depended upon independent budget target. So that the regression line of achievement (y) on target (x) or (y) on x as follows:

$$y Z \bar{y} X r \frac{0y}{0x} | (x Z \bar{x})$$

The following values as calculated above:

	X	Y
Mean $\bar{x}$	***Budgeted***	***Actual***
S.D. ∃	03545	246401
∃ xy| = 0.65	6041	3875

Then $y Z \bar{y} X rx \frac{0y}{0x} (x Z \bar{x})$

$$y Z 46401 X 0.65 | \frac{13875}{604} (x Z 35452)$$

$$or, y Z 46401 X 14.93 (x Z 35452)$$

$$y X 14.93x \Gamma 10949$$

From the above eq^n it is clear that the actual deposits are in increasing trend. By the help of this regression equation, the expended deposits achievement with given value of target deposits say (x) ascertain the expended deposits achievement fro fiscal year 057/58=35768 (Million)

Which x= 35768

Then expended deposits achievement y = 14.93 x35768+10949

= 544965(million)

If the relationship between budgeted deposits and actual deposits remains same as previous year then the actual sales for the fly 057/058 will be 544905(million) as stated by the above regression line equation from the following table shows the data of actual deposits mobilized by the bank as of the end of each fiscal year. The table shows the amount of deposit is increasing every year considerably.

Table No. 4 Growth of deposits of Nepal Bank ltd.(Amount in million)

Fiscal year	Deposit Amount	Growth in (Rs.)
057/058	35768	
058/059	35619	149
059/060	34265	1354
060/061	35014	749
061/062	35735	721
062/063	35943	208
063/064	35829	114

(Source: NBL annual report 057/064)

4.3.2 Resources Deployment Plan:

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 made 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*
2) *Deployment for income generating activities*
3) *Deployment for other assets*

1. Deployment for liquidity

This is made for meeting expected withdraw and other kind of payment obligation of the Bank. The resources for this purpose is kept in liquid from such as cash in vault can at Bank etc. Generally, there is no yield on this type of deployment excepting in the case money placed in interest bearing account. The central Bank of Nepal NRB has instructed commercial Bank to mandatory maintain approximately 10% their total customer deposit liability as liquid from (cash in vault and 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 are taken by the Bank in following two portfolio:

a) Loan, Discount and Overdrafts (LDO)

b) Other Investment

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 investments includes investment in shares. Treasury Bill (TB), Placement of fund on call Market etc.

3. Deployment for other assets:

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

Table No. 3 : Status of resources deployment by Nepal Bank ltd.(Amount in million)

Fiscal year	*Cash & Bank balance*	*LDO*	*Investment*	*Other Assets*	*Net fixed Assets*	*Total*
057/058	42367	21230	5462	43812	16647	129518
058/059	45462	20419	6776	43333	15465	132055
059/060	48552	19253	7151	45467	18663	139086
060/061	54378	18132	12464	46195	13775	144844
061/062	57673	17938	11021	47563	19504	153699
062/063	58117	16866	14220	46919	18708	154830
063/064	70914	97562	14490	43067	19170	230713

(Source N.C Annual Report 057/064)

Above table shows the deployment of the Banks available resources at various portfolios among which the LDO hold the biggest outlet of resources deployment. Therefore, in this study, we have segregated the deployment into following two categories:

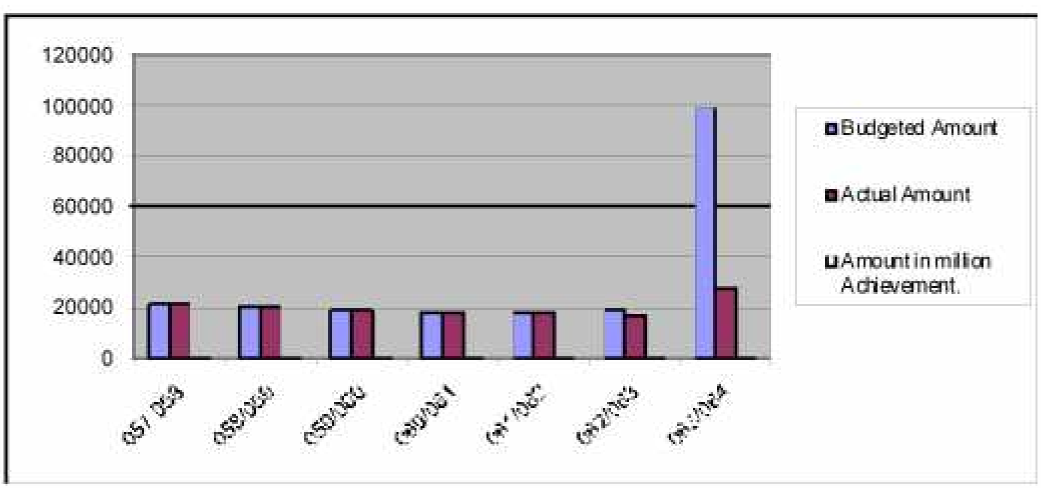
Budgeted Deployment in LDO & Actual LDO of Nepal Bank Ltd.

Following table shows the budgeted amount of LDO and the same achieved actually. Since budgeted figure for LDO from 057/058 to F/Y 063/064 could be available this study has assumed the actual figure as the budgeted amount also.

Table No.4 : Status of Budgeted and Actual Deployment for LDO:

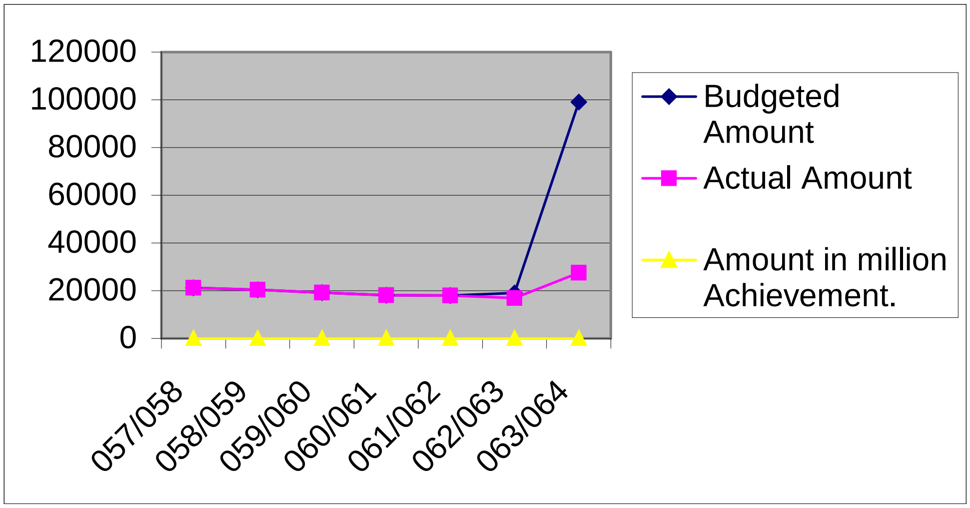
Fiscal year	*Budgeted Amount*	*Actual Amount*	*Amount in million Achievement.*
057/058	21230	21230	100%
058/059	20419	20419	100%
059/060	19253	19253	100%
060/061	18132	18132	100%
061/062	18000	17938	100.003%
062/063	19000	16866	111.23%
063/064	99000	27562	100.05%

Budgeted & Actual Deployment for LDO



(Diagram No**. 2 Bar Diagram of LDO status.)**

The status of budgeted and actual deployment in LDO on the various years of study are presented in the bar diagram and scatter **diagram no. 2 as below**:



We can find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tool's that is arithmetic mean standard deviation and coefficient of variation. The detail calculation of these statistical tools is shown in appendix-2. Now we are going to represent summarizing the results from **appendix-2.**

Table No.7 : Summary of the LDO budgeted and achievement :

Tools Name	Budgeted LDO (x)	Actual LDO (y)
Mean	20720	20091
Standard Deviation(∃)	3232	7877
C.V	0.026	0.056

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

We can use another statistical tool correlation coefficient to analyze the relationship between budgeted and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. Karl person's coefficient of correlation between budgeted LDO and actual LDO or not. The actual LDO will change in the same direction, as the budgeted LDO for this purpose budgeted LDO is denoted by x and assumed to be independent variable and actual LDO is denoted by y is assumed to be dependent variable upon budgeted LDO.

So that increase in budget supports to increase in actual achievement or vice versa, which meant that there should be positive correlation between budgeted figure and achievement figures. Significance of correlation of ‘r’ is tested with probable error (PE). We have probable error (PE)=0.45.

The detail calculation of ‘r’ and probable error (PE) in presented in appendix-2. The value of ‘r’ is 1.00. This figure of ‘r’ shows that there positively perfect correlation between budgeted LDO and actual LDO. We have r=1.00, P.E.=0.45.

Since R is greater than IX times of the probable error (1.0076x0.45), the value of ‘r’ is more significant. So it is no doubtful than actual LDO will go on same direction that of budgeted LDO.

From the calculation is appendix-2. Obtained the value of r being 1. Now the coefficient of determination which explains the change in y variable i.e actual LDO by variable i.e Budgeted LDO can be calculated as the square of r. Therefore, coefficient of Determination = $r^2 = (1)^2 = 1$.

Another statistical tool regression line can also be fitted to show the degree of relationship between budgeted LDO and actual LDO and to forecast the achievement with given target for this purpose achievement figure have been supported to be depended upon independent target. So that the regression line of achievement y on target x or y on x is as follows:

$$y \,Z\, \overline{y} \,X\, r\frac{0y}{0x}(x \,Z\, \overline{x})$$

We have the following values as calculated above:

	<u>Budgeted</u> X	<u>Actual Y</u>
Mean $\overline{x}$	20720	20091
S.D. ∃	3832	7877

∃rxy =0.13

Then,

$$y \,Z\, \overline{y} \,X\, r\frac{0y}{0x}(x \,Z\, \overline{x})$$

$$y \,Z\, 20091 \,X\, 0.13 \mid \frac{7877}{3832} \mid (x \,Z\, 20720)$$

$$or, y \,Z\, 20091 \,X\, 0.267 \mid (x \,Z\, 20720)$$

$$or, y \,Z\, 20091 \,X\, 0.267x \,Z\, 5532$$

$$or, y \,X\, 0.267x \,Z\, 1456$$

From the above equation, it is clear that the actual LDOs are in increasing trend. By the help of this regression equation, ascertain the expended LDOs achievement with given value of target LDO say (x) for fiscal year 063/064 =29000(million)

When x= 29000(million)

The expected LDO achievement

y=0.267x-1456

=0.267 X 2.9000-1456

=62880 (million)

Growth of LDO of the Nepal Bank Ltd:

Following table shows the data of actual LDO deployment as of end of each finical year. The table shows that the LDO of the bank is growing each year substantially.

Table No. 5 Growth of LDO of NBL.

Fiscal year	LDO in million	Growth Amount in million
057/58	21230	0
058/059	20419	811
059/060	19253	1166
060/061	18132	1121
061/062	17938	194
062/063	16866	1072
063/064	27562	10696

(Source: NBC Annual Report 057/to 064)

4.3.3 Plan for Non-funded Business Activities of NBL:

A part from the activities like advancing loans overdraft, bills discounting and investments where funds are involved for income generation, there are other business activities tool performed by the bank, which do not involve fund yet they are income generating such transactions are called non-funded business of the bank. In such transactions, the bank has to take contingent liabilities on behalf of their customer for a fee and/or commission, which are the income in bank other than the interest income such income greatly contributes in reducing the expense burden of the bank.

Generally, income generating non-funded business of the bank is of following two types.

1. Letter of credit Business.
2. Bank Guarantee.

Since these are the contingent liabilities it appears down the line of Balance sheet of the Bank.

4.3.3.1: Letter of credit: Letter of credit is a kind of facility provided by the bank to their customer, by way of which the customer can import the goods from to reign buyer for which the bank undertake the guarantee for payment provided the terms and conditions of 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 its growth over the period of this study:

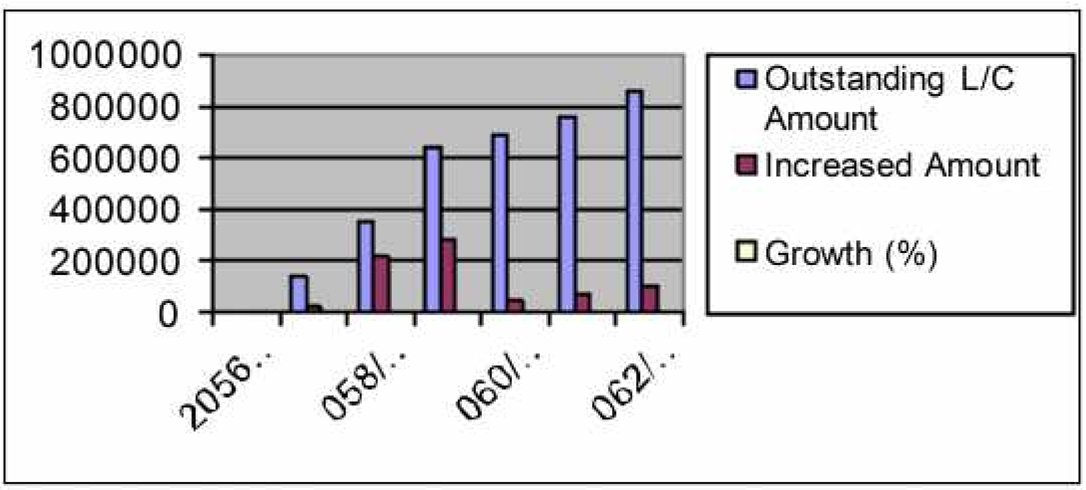
Table No.6 : Growth of L/C Business of NBL (Amount in million)

Fiscal year	Outstanding L/C Amount	Increased Amount	Growth (%)
057/058	139367	20679	14.13
058/059	355323	215956	17.42
059/060	639226	283903	154.95
060/061	689172	49946	79.89
061/062	755629	66457	7.81
062/063	858562	102933	13.62
063/064	932146	73584	8.57

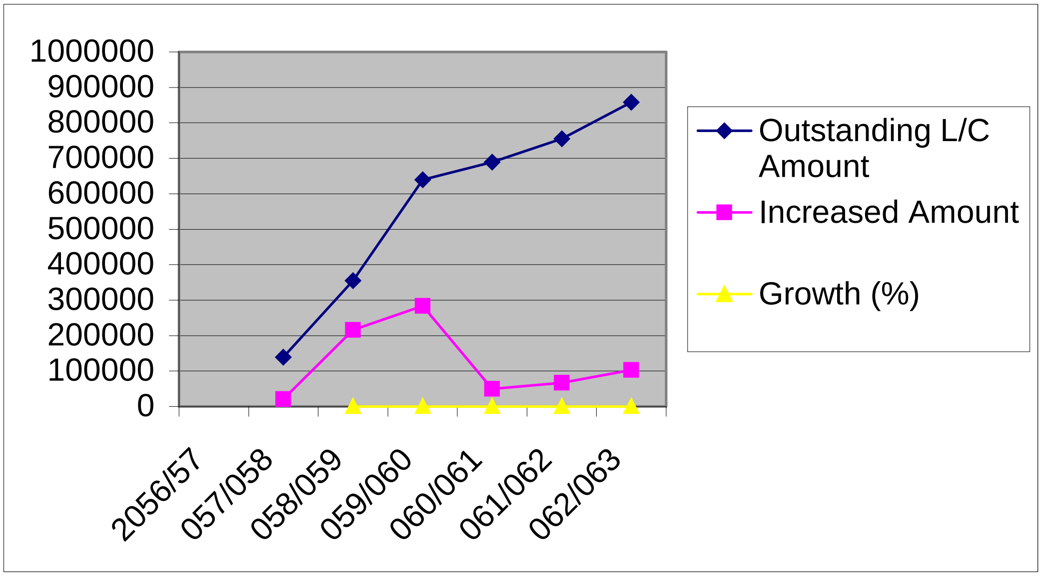
(Source: NBL, Annual Report to 063/064)

Above table shows, that the letter of credit is increasing each year, it had a record growth of 154.95% in the year 059/060 and 8.57% growth in the year 063/064.

The growth in L/C business of the Bank has been presented in the Bar-Diagram as below:



(Diagram No.3 Yearly letter of credit business of NBL.)



(Diagram no. 3 scatter (Outstanding L/C amount, Increased Amount of Growth%)

4.3.3.2: Bank Guarantees:

Bank issues the Bank guarantee on behalf of their customer for bidding and/or performing any activities by the letter in favor of the employer of the activities. It is a guarantee letter issued by the bank agreeing to pay a certain sum of money in case of any default done by the party while performing the activity. Following table shows the outstanding bank guarantee liability as of the end of fiscal year of one study and the change in subsequent year.

Table No.**7 Yearly growth in Bank guarantee liability**:

Amount in Rs(in million)

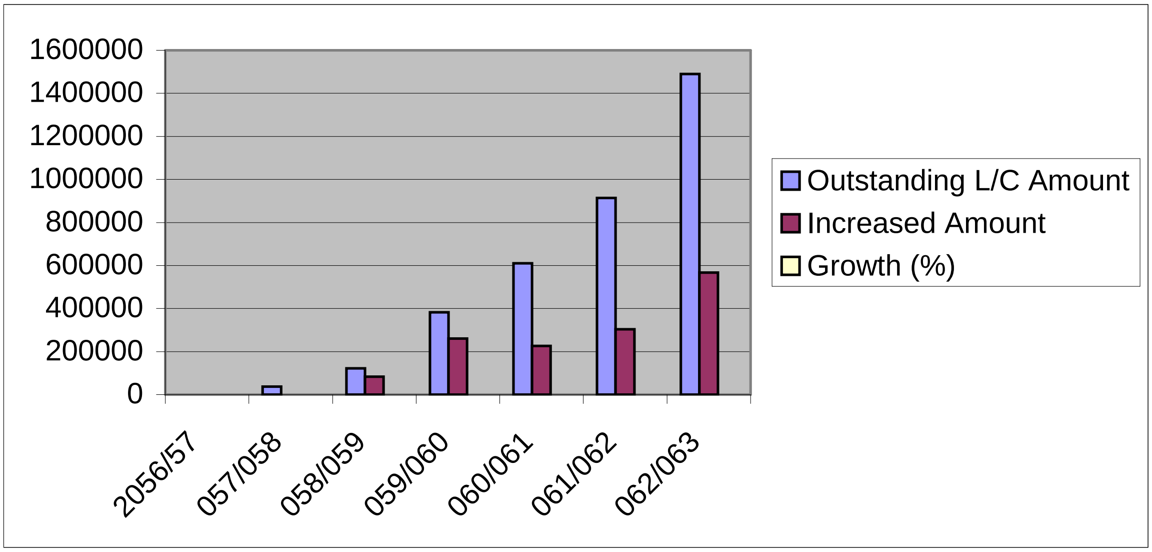
Fiscal year	**Outstanding L/C Amount**	**Increased Amount**	**Growth (%)**
057/058	139367	84066	60.31
058/059	355323	261130	73.04
059/060	639226	226913	35.04
060/061	689172	303477	49.76
061/062	755629	567100	63.07
062/063	858562	(436924)	(50.08)

(Source: NBL, Annual Reports 063/064)

Above table shows that the bank guarantee outstanding liability is fluctuating each year except for the fiscal year. It had a record 063/064.

Growth of 222.38% in the year 058/059 and 73.04% growth in the year 059/060 but it has a negative growth of 50.08% in the year 063/064.

The growth in B/G business of the bank has been presented as below:



(Bar diagram No:4 Yearly Bank Guarantee Business of Nepal Bank Ltd.)

4.3.4. Expenditure planning of NBL:

Planning for expenses is 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 this expenditure. Nepal Bank Ltd. has started preparing expenditure and revenue budgeted only from the F/Y 057/058. The following table shows the status of expenditure incurred by the Bank for the study period:

Table No8 Yearly Cost Structure of NBL (Amount in million)

Expenses	057/058	058/059	059/060	060/061	061/062	062/063	063/064
Interested expenses	1957	1745	1713	1586	102604	749	7726
Staff Expenses	15849	26435	25592	31758	38271	54811	32949
Operational Expenses	15800	14300	15800	22000	31800	38300	32949
Exchange loss	0	12475	13182	64553	0	0	0
Non-operating Expenses	0	0	0	0	0	0	0
Provision for Loss	5243	11987	14676	28340	28844	66668	140584
Provision for staff Bones	5448	5443	6753	7894	8731	9314	10286
Provision for income Tax	4417	1598	9913	27052	40848	74276	93420
Total Expenses	***66327***	***73983***	***257216***	***340797***	***251094***	***318269***	***387452***

(***Source: NBL Annual Reports 057/064)***

The above table shows that the each type of expenses each year is in increasing trend. As the expenses for interest payment is the highest portion of total cost of each year. We have segregated total expenses into interest expense and expenses other than interest (Other expenses) for our study.

4.3.4.1 Interest Expenses.

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

Now analyze the interest expenses to total deposit mobilized by the Bank in following table:

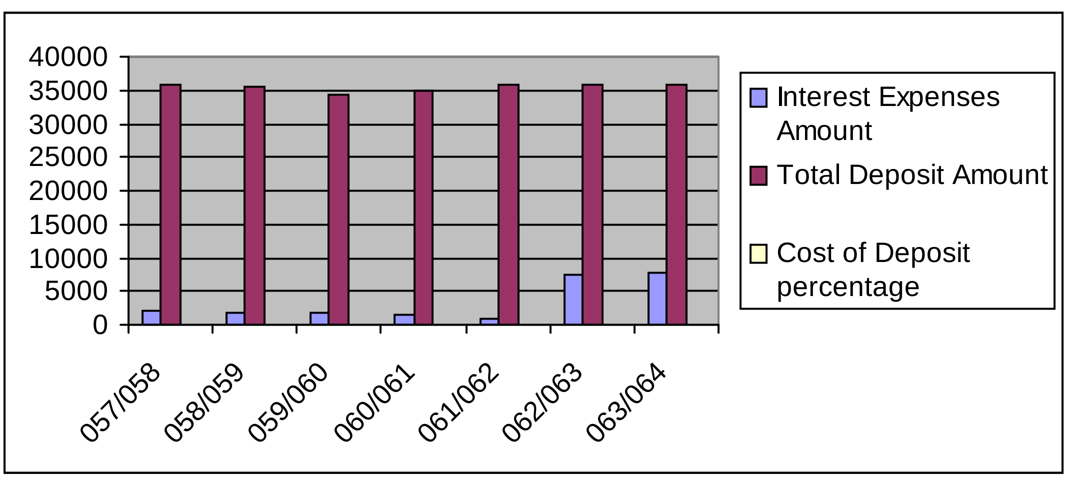
Table No.9: Yearly status of interest Expenses to total Deposit (Cost of Deposit) in million.

Fiscal Year	***Interest Expenses Amount***	***Total Deposit Amount***	***Cost of Deposit percentage***
057/058	1957	35768	5.47%
058/059	1745	35619	4.90%
059/060	1713	34265	5.0%
060/061	1586	35014	4.5%
061/062	1026	35735	2.87%
062/063	7490	35934	2.08%
063/064	7726	35823	2.16%

(Source: NBL Annual Reports 057 to 064)

As said earlier, the customer deposit is one of the major sources for resources mobilization by the bank for the deposit taken by the bank it has to pay interest. There are various kind of deposits accounts from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank fro 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 of profitability from above table can see that the yearly COD of Nepal bank range from 2.08% to 5.47% in various years. The average COD for the period of this study is 3.85%. The status of total deposit and the COD is show in the Bar diagram as below:

The status of total deposit and the COD is show in the Bar diagram as below:



(Diagram No.5 : Bar diagram Showing yearly Deposit & COD of Nepal Bank ltd.)

It is significant to analyze the relationship between deposit interest expenses. The figures of actual deposits amount and interest expense amount can be presented in tabular forth. In order to find out the variability, of actual deposits and actual interest expenses of different years by calculating arithmetic mean. Standard deviation and coefficient of variation technique and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix No 3. Now summarizing the results from **appendix-3.**

Table No.10 : Summary of actual deposits & Interest expenses amount.

Statistical Tool	***Actual Deposits in Rs.(x) In million***	***Interest expenses Amount in Rs. (y) in million***
Mean $\bar{x}$	354510	46400
S.D. 0	58100	3713
C.V.	0.17	0.80

The above result shows that actual outstanding deposit is less variable than actual interest expenses incurred. Hence the coefficient of variation of actual outstanding deposit is lower than of actual interest expenses. Another statistical tool correlation of coefficient can be used to analyze the relationship between actual outstanding deposits into actual interest expenses. There should be positive correlation between them, In other words the actual deposits increase the actual interest expenses decrease or vice versa. Actual deposits and actual interest expenses take the help of Karl person's coefficient of correlation and it is denoted by 'r' examine whether there is positive correlation between actual deposits outstanding and actual interest expenses or not. For this purpose, actual a deposit (x) is assumed to be independent variable and interest expenses (y) in assumed to be dependent variable. So that increase in actual deposits will support to increase in interest expenses and vice-versa. After this significance of 'r' is presented in appendix 4(a) from this appendix we have calculate value of 'r' and P.E. and respectively 0.30 and 0.088. Since r>6P.E ($0.30<6\times0.088$) the value of 'r' is significant. There is perfect correlation between actual deposits and actual interest expenses incurred.

From the calculation shown in appendix 3 obtained the value of 'r' being 0.30. Now the coefficient of determination, which explains the change in 'y' variable i.e. interest expenses by 'x' variable i.e. deposit can be calculated as the square of 'r':

Therefore, the coefficient of determination $(r)^2=(0.30)^2=0.90$

4.3.4.2 Expenses other that interest expenses:

The operating expenses incurred by the bank for other then interest payments are included in other expenses for this study.

Such expense includes:

a) Expenses for employees
b) Operational expenses
c) Non-operating expenses
d) Loan loss provision

Besides above profit appropriation toward staff bonus provision and income tax provision has also been included in other expenses.

4.4.. Revenue planning of NBL:

NBL generates its revenue from its income earning activities. Such activates are mostly fund-based, that is generated out of the deployment of fund, and some portion form non-fund based activities. Income of NBL can be broadly categorized in to two types viz. Interest income and other income . Interest income is the interest earned from the loan advances and overdraft provided interest income holds major share in total income portfolio of the Bank. Other income consists the income other than interest income, which are as follow:

1. Income from commissions & Discount.
2. Dividend received from investment in shares.
3. Income from foreign exchange transactions.
4. Various kinds of service fees & charges etc

Table No.11: Yearly Income structure of Nepal Bank Ltd. (Amount in million).

Revenue	**057/058**	**058/059**	**059/060**	**060/061**	**060/062**	**062/063**	**063/064**
Interest Income	2368	1527	2200	1825	1987	2049	2140
Commission & Discount	145	211	280	231	188	177	200
Dividend	0	0	0	0	0	0	0
Other Income	136	368	462	1206	1206	1973	2066
Foreign Income	15	36	42	71	71	18	20
Non-operating Income	153	720	131	645			236
Total Revenue	2817	2862	3115		3768	4217	4662

(Sourc: NBL Annual Reports (2057/58 to 2063/064)

The above table shows that the revenues are increasing each year. Income from interest the highest among the other in total revenue for each year.

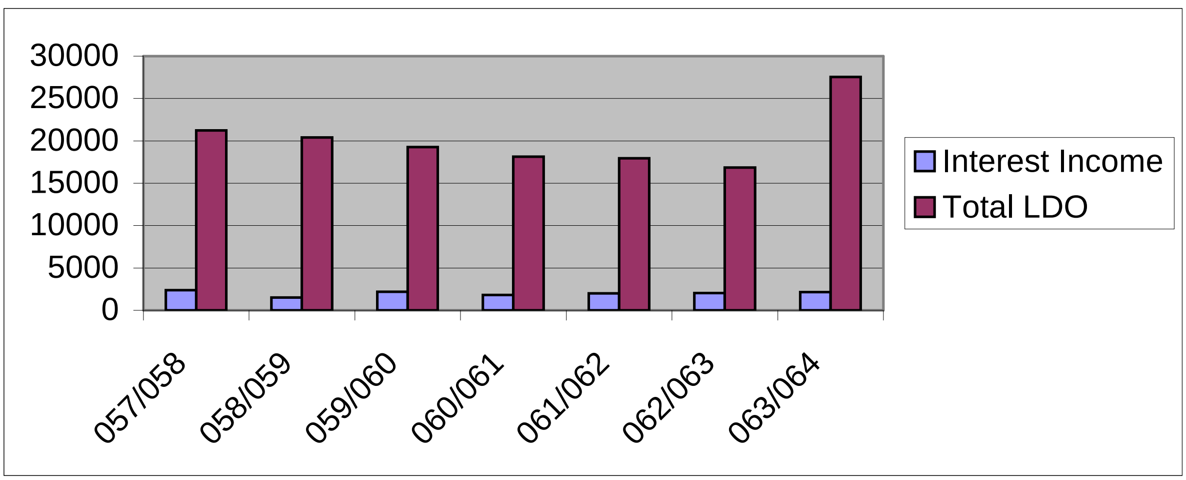
4.4.1. Interest Income:

As interest income contributes the major portion of total revenue mix, this study attempts to analyze the interest income amount with other relevant data. Interest income is generated out of the loan and advances made by the bank. Therefore this popularly called yield on fund (YOF). Bills discounting is also one form of advances therefore, for this study purpose, grouped the outstanding loan advances & overdraft and the bills discounted together to call LDO and have included the bills discounting commission too into the total interest income amount (YOE). Now, analyze the comparative status of total (YOE) with the total LDO with the help of following table and Bar Diagrams.

Table No11 Status of Interest income to table LDO Amount in million.

Fiscal Year	**Interest Income**	**Total LDO**	**Average Yield on LDO**
057/058	2368	21230	11.15%
058/059	1527	20419	7.47%
059/060	2200	19253	11.42%
060/061	1825	18132	10.06%
061/062	1987	17938	11.07%
062/063	2049	16866	12.15%
063/064	2140	27562	7.76%

(Source : NBL Annual Report 057 to 064)



(Bar diagram No.6 Interest Income & Total LDO)

From the above the yearly YOE of NBL ranges from 7.4% to 12.15% in various years. The average YOE for the period of study is 10.15% .

It is significant to analyze the relationship between outstanding LDO and interest income (YOF). The figures of LDO amount and interest expenses amount has been presented in tabular from above in order to find out the variability of different years to calculate arithmetic mean, standard deviation and coefficient of variation technique and correlation of coefficient.

The detail calculations of these statistical tools are presented in appendix no 4. Now summarizing the results from **appendix 4**

Table no. 12 Summary of actual LDO & interest income amount . Amount (in million)

Statistical Tool	**Actual LDO in Rs. (x) in million**	**Interest income amount (y) in million**
Mean $\bar{x}$	20200	2014
S.D. 0	3576	274
C.V	0.18	0.14

The above results show that actual outstanding LDO are more variable than interest income. Hence the coefficient of variation of actual outstanding LDO is higher than of interest income. Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding LDO and interest income. There should be positive correlation between actual outstanding LDO and interest income. In other words the actual LDO increase as the interest income increases or vice versa. To find out correlation between interest income and actual outstanding LDO we can take the help of Karl person's coefficient of correlation and denoted 'r' we can examine whether there is positive correlation between interest income and actual LDO outstanding or not.

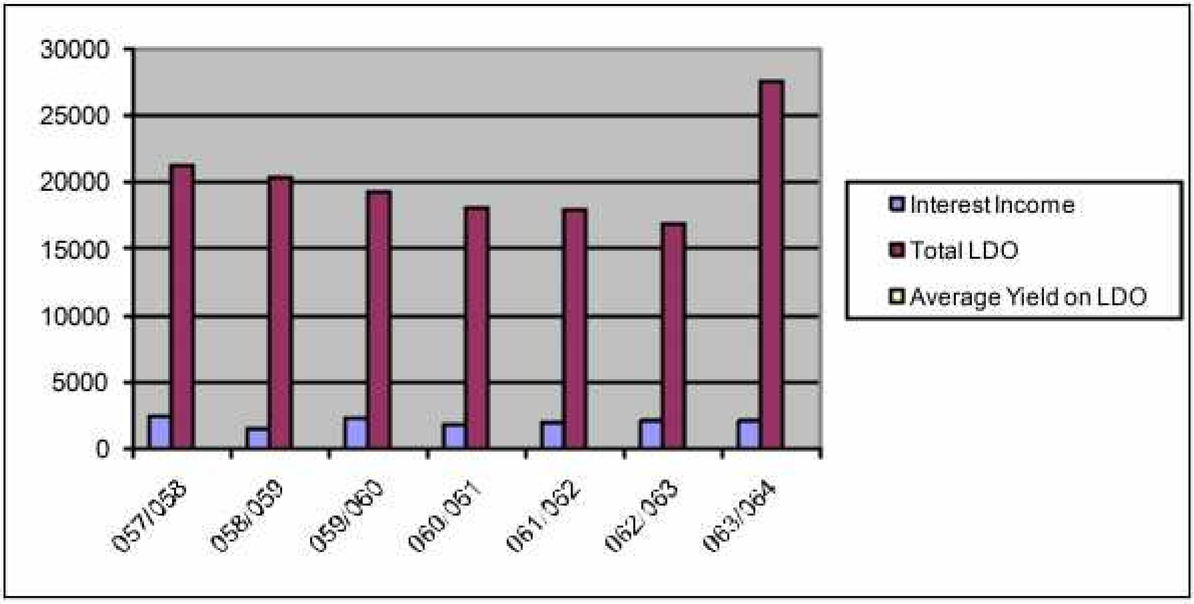
For this purpose, actual LDO (x) is assumed to be independent variable and interest income (y) in assumed to be dependent variable. So that increase in LDO will support to increase in interest income and vice versa. After this significance of 'r' tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is presented in appendix 5. From this appendix we have calculated value of 'r' and PE. 0.23 and 0.44 respectively. Since R<6P.E(0.23<6X0.44) the value of 'r' is not significant. There is not perfect correlation between actual deposit and actual LDO.

From the calculation shown in appendix 4. Obtained the value of 'r' being 0.23. Now the coefficient of determination which explain the change in 'y' variable i.e interest income by 'x' variable i.e.

LDO can be calculated as the square of 'r'.

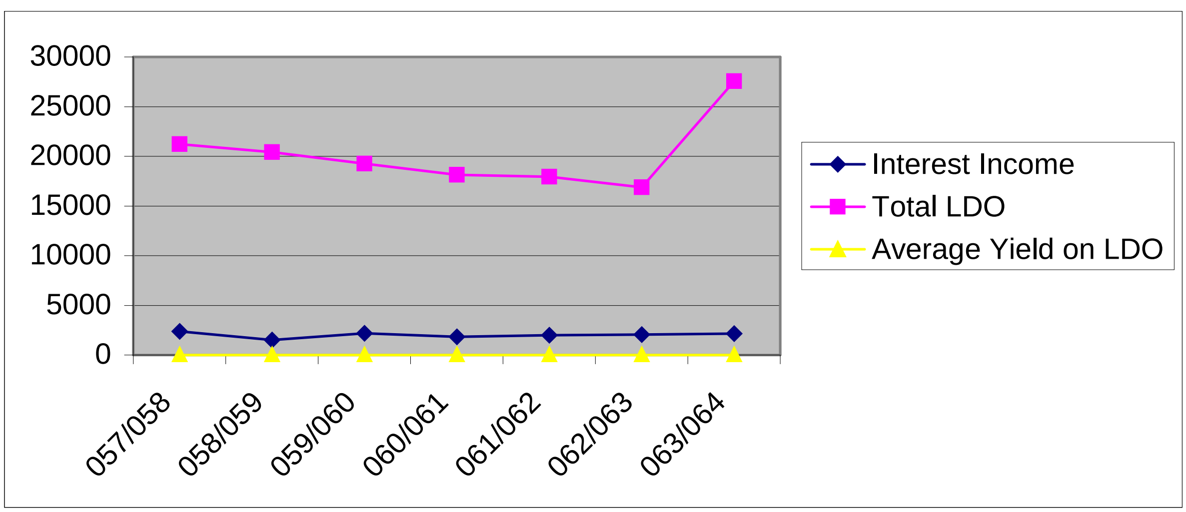
Therefore the coefficient of determination = $(r)^2 = (0.23)^2 = 0.00529$

The data of actual deposits and interest expenses incurred can also be presented in diagrams as below:



(Diagram No.7: Bar diagram of yearly LDO and interest income)

Yearly LDO & Interest Income



(Diagram No.4: Scatter diagram of yearly LDO and Interest income.)

Above diagram shows that both the actual deposits & interest income are incurred in increasing trend.

4.4.6.2 : Income Other Than Interest Income :

Income earned by the bank other than interest income, are called other income. Most part of such incomes are earned from non fund based activities in the from of commissions, fees charges profit on foreign exchange sale, revaluation gains. Commitment charges, remittance fees, service charges etc. The amount various years are as shown in above table no.19.

4.4.2. Interest Spread.

Interest spread if 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.

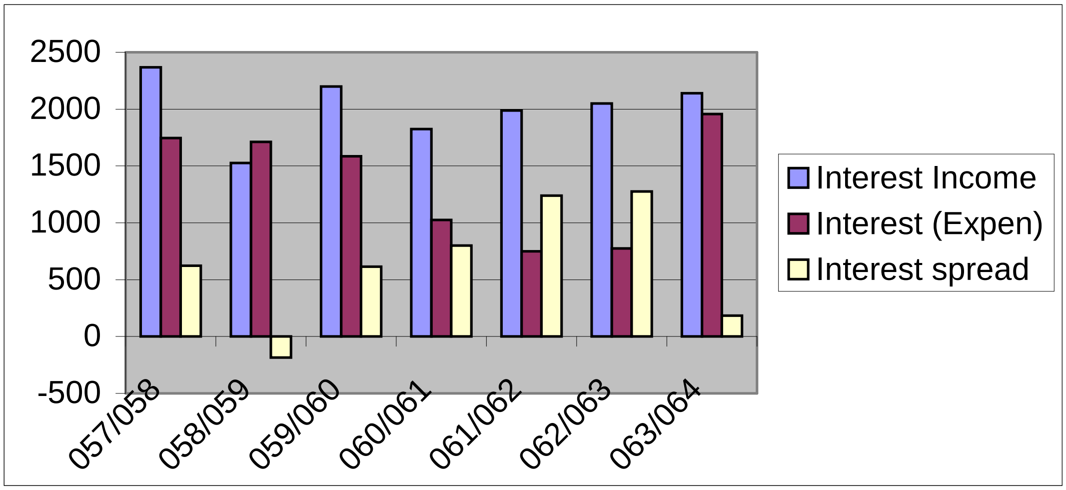
Following table gives the status of interest income expenditure and spread of the bank for the study period.

Table No. 11: Yearly spread of NBL. Amount in million.

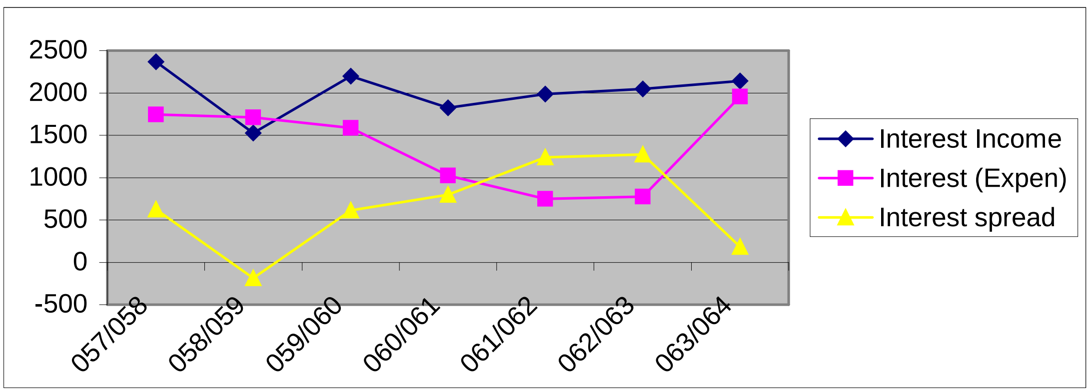
Fiscal Year	Interest income	Interest Expenses	Interest Spread.
057/058	2368	1745	623
058/059	1527	1713	186
059/060	2200	1586	614
060/061	1825	1026	799
061/062	1987	749	1238
062/063	2049	774	1275
063/064	2140	1957	183

(Source: NBL, Annual Reports 057/064)

Interest income interest expenses and spread.



(Diagram No. 8 Bar Diagram of Interest income, interest expenses and spread.)



(Scatter Diagram No. 5 Interest income interest expender and spread.)

Above diagram and table show that the interest spread is in increasing trend.

4.4.3 Burden

Burden is the overall expenses of the banked excepting interest expenses increase in the payment of deposit interest that is, the operating cost of the bank excepting interest can't is called the burden the net burden is the met amount of burden cost obtained which in 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 No. 12 Table showing burden of NBL (Amount in million.)

Fiscal Year	Other Expenses	Other Income	Net Burden
057/058	243	136	107
058/059	396	368	28
059/060	812	462	350
060/061	1714	1206	508
061/062	1672	1576	96
062/063	1876	1973	-97
063/064	2206	2066	140

(Source : NBL Annual Report 057 to 064)

4.4.4 Net Profit

Profit is excess of income over expenditure. In this context, this study has concerned the net profit being the excess spread over the net burden. Spread in the net interest income (excess interest Income over the interest expenses) and the net burden is the difference amount from other expenses and other income.

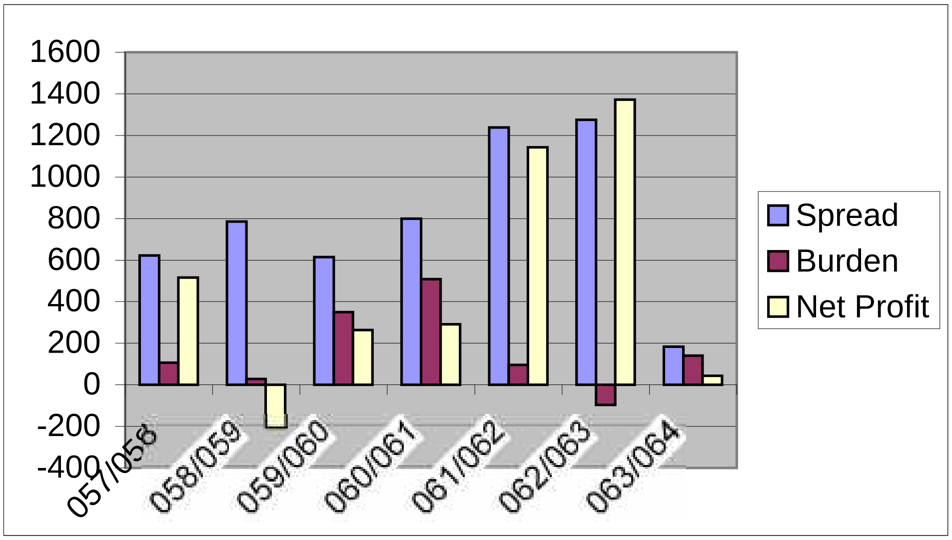
Following table and graphs shown that status of spread, burden and Net Profit of various year of the study.

Table No13 yearly Net Profit status of NBL (Amount in Million)

Fiscal Year	Spread	Burden	Net Profit
057/058	623	107	516
058/059	786	28	-214
059/060	614	350	264
060/061	799	508	291
061/062	1238	96	1142
062/063	1275	-97	1372
063/064	183	140	43

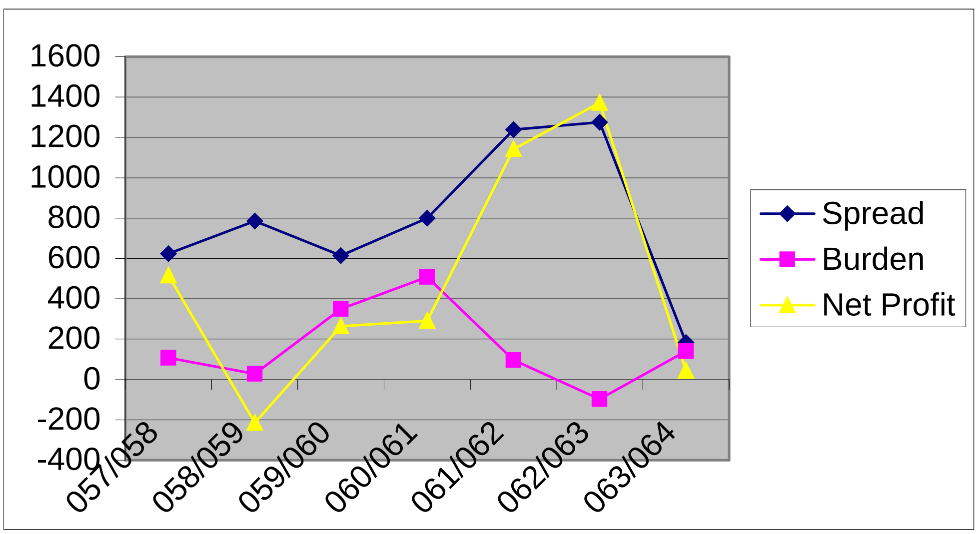
(Source : NBL Annual Report 057 to 064)

Spread Burden & Net Profit



(Diagram No.9 (Spread, Burden & Net profit.)

Spread Burden & Net Profit



Scatter diagram No. 6 (Spread, Burden, Net profit)

4.5 Performance Evacuation of NBL

Performance evaluation for internal Management use an important part of a comprehensive profit planning and control system "(welsch-1999) All companies regards of their sir have reporting requirements of show their overall performance.

Performance reporting is an important phase of control process. Use various techniques and criteria toe evaluate performance of NBL, which are as following:

1) Ratio Analysis.
2) Cost Volume profit Analysis.

4.5.1 Ratio Analysis: An arithmetic relationship between two figures is known as ratio. Ratio analysis, is a financial deice to measure the financial positions, Major strengths and weaknesses of a firm. To Evaluate the performance of an organization 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

- Liquidity Ratio
- Capital structure ratio
- Activity Ratio
- Profitability Ratio

a) **Liquidity Ratio:** The ability of a firm to meet its obligation in the short-term in known as liquidity. Its reflects the short-term financial strength of the for. Now we use current ratio to measure relationship of current assets and current liabilities of NBL.

Liquid ratio = Current assets / current Liabilities

Table No. 14 Calculation of liquidity Ratio "Amount in Million"

Fiscal Year	Current Assets (A)	Current Liabilities (B)	Current ratio (/B)
057/058	9693	2586	3.7:1
058/059	9008	2401	3.7:1
059/060	12646	6426	1.9:1
060/061	15493	7971	1.9:1
061/062	10418	2686	3.8:1
062/063	11575	3114	3.7:1
063/064	13150	4596	2.6:1

Presents the detailed charts of liquidity ratio of NBL for the years from fiscal year 057/58 to 063/64. The standard of current ration is 2:1. Current ratio of NBL is remarkable because it is some times shown that NBL solvency Position is better.

b) Capital Structure Ratio

Judge the long-term financial position of NBL the coverage ratio are calculated. The following two ratios are calculated in capital structure ratio.

1) Debt equity ratio.

2) Interest courage ratio

1. <u>Debt. Equity ratio</u>: The relationship between borrowed funds an owner equity is known as debt equity ratio.

We have taken the amount of fixed deposit as long-term debt for the Rank.

Debt Equity ratio = Fixed Deposits/ Capital Fund.

Table No15 Calculation of debt equity ratio ("Amount in Million")

Fiscal Year	**Fixed Deposit (A)**	**Capital fund (B)**	**Debt equity Ratio (A/B)**
057/058	35768	21610	1.7:1
058/059	35619	20799	1.7:1
059/060	34265	19633	1.8:1
060/061	35014	18512	1.9:1
061/062	34735	18318	2:1
062/063	35934	17246	2.1:1
063/064	35823	17972	2:1

From the above table no. 26 debt equity ratio shown low debt portion in comparison to capital fund. But as the Banked one of the major function is to accept customer deposit it is obvious that the bank will have not higher debt equity ratio:

2. **<u>Interest coverage ratio:</u>** This ratio measures interest payment capacity of NBL. It is computed by calculating Net profit before interest and tax by interest cost amount.

Table No16 Calculation of interest coverage Ratio "Amount in Million"

Fiscal Year	Net profit between interest and Tax (A)	Interest expenses Amount (B)	Times (A/B)
057/058	-212	1957	-0.11
058/059	-190	1745	-1.56
059/060	-1544	1713	-0.90
060/061	1948	1586	1.23
061/062	2535	1026	2.47
062/063	3717	749	4.96
063/064	3811	896	4.25

Interest coverage ratio of NBL is increasing trend year by year, which means it is favorable of NBL.

C) Profitability ratio

It shows the overall efficiency of the origination the relation of the nature of the firm to either its sales or its equity or its assets in known as profitability.

Table No. 17 Calculation of Profitability Ratio "Amount in Million"

Fiscal Year	Net Profit	Total assets	Return on Assets	Total Capital fund	Return Capital
057/058	(572)	38637	(1.48)%	21610	(2.7)%
058/059	(3071)	39559	(7.76)%	20799	(14.76)%
059/060	(251)	39816	(0.63)%	19633	1.28)%
060/061	710	44161	1.6%	18512	3.84%
061/062	1730	47045	3.7%	18318	9.44%
062/063	1207	35919	3.4%	17246	3.36%
063/064	227	39259	0.58%	17972	1.26%

It shows the result on assets and capital fund of NBL, which is not so remarkable. It indicates that net profit of NBL is in fluctuating trend. The profitability ration of NBL is not so good and strong. It is profit ratio indicate of the lower overall efficiency of the NBL and not better utilization of total resources available.

4.5.2 Cost-volume-profit Analysis.

The relationship between cost volume and profit is known as cost volume profit analysis. It is an analytical tool for standing the relationship between volume, cost and profit. It is also an important tool used for the profit planning in the business. There are three factor of cost volume-profit analysis, which are inter connected and dependent on an other. For example profit depends up on rules setting price to greater extent will depend upon the costs depended upon he volume of production. Cost volume profit analysis ii great helpful in managerial decision making specially cost control and profit planning CVP Analysis of NBL based on following assumptions:

- Cost volume structure is based on the accounting data of fiscal year 057/58 and CD ratio and YOF is taken for the last seven years average.
- Activity based is selected in term of Rs in million.
- In case of NBL Net Burden is treated as fixed cost which is calculated on the basis of total other cost and total other income of fiscal year 063/64 and interest Margin (Spread) is calculated on the basis of total Interest income and total interest expenses of fiscal year 063/64.

Cost, Volume, Profit Analysis of NBL "Amount in million"

Total Interest income= Rs 14096

Total Interest Expenses =Rs. 9550

Total Other Expenses =Rs. 9019

Total Other income=Rs. 7787

Net Burden = Total other expenses- Total other Income= 9019-7787= Rs 1232

Interest margin

(Spread) = Total interest income- Total interest Exp. = 14096-9550= Rs. 4546 in Million

a) We can calculate the BEP in terms of interest income of NBL as below:

$$\text{BEP in \%} = \frac{1232 \times 100}{4546} = 27.10\%$$

BEP in Rs. = Interest Income x BEP %

= 14096 x 27.10%

= Rs. 3820

b) Margin of safety for the year 063/64 Can be calculated as below:

Margin of Safety = Total interest income-BEP income

= 14096-3820

= Rs. 10276

Margin of safety ration (for 063/064):

$$\text{M/S ratio} = \frac{\text{Margin of Safety}}{\text{Total interest income}}$$

$$= \frac{10276}{14096} = 100\%$$

= 72.90%

The analysis shows that the Bank's burden earning trend will be encouraging if it can increase its revenue and decrease its burden.

CHAPTER-FIVE

Summary, Major Findings and Recommendation

5.1 Summary.

The prosperity of every developing country can only be ensured by its economic growth. The rate if commercial Banks in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idles resources from the savers, commercial banks pools the fund in a sizable volume in order to feed to feed to the fund requirement of productive sector of the economy. Such investments in the productive sector promote trade and industrialization in the country there by raising the employment opportunities and earning to the laborers and materials & service providers to such industries and trades, which as a chain effect promotes saving into the banks and more saving means more funds available in the bank for further investment. In this way as the chain moves rolling or, the economy of the nation also grows.

To remain, as the major contributing factor to the growth of the nation is economy, the banks also have to hare sustainable existence and growth of themselves. For the sustainable existence and growth of a bank, it must ensure reasonable profitability. As the banks are formed as point stool compares promoted by shareholders investment, it must give reasonable return on the fund of the shareholders further by the profit made by the bank, it may stronger and more sustainable for facing any future treat that may come up. A profit earning org can better feed to their employees, there by enhancing the morale of the employees and motivate them for better performances.

Therefore, profit for commercial organs has been defined as the life-blood for them. 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 it helps in increasing the income at a minimum possible cost or at optimum cost this study aims at examining the applications of profit planning in a commercial bank withal specific case study of Nepal bank limited.

Nepal bank limited is one of the well-rum commercial bank in Nepal established in the year 194 B.S. with Nepalese government and public. As the bank has just completed to years of its operation, its history is that long in comparison to other commercial bank of Nepal.

This study has tried to cover the various as pacts of analytical study on revenue planning of NBL from the time of its inception to the end of fiscal year 063/064 in the first introduction chapter this study report has tried to give brief introduction of banking and its relation to the economy brief profile of the concerned bank general concepts to the profit and profit (revenue) planning the problem statement objective of the study and its scope limitations and significance.

During the research works an extensive review of various literatures books past thesis journals have been made and Internet materials from relevant web sites were also consulted. The works were completed into the chapter two filled as "Review of literature" of this study report.

Research methodologies followed for this rescrub works are mentioned in the chapter three titled as "Research methodology"

Data relining to various activities of the bank has been collected, presented in tabular and various diagram form and are tired to be interpreted in the study report in logical ways. Data are then analyzed applying various financial mathematical and statistical too is have been 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, major findings and the recommendation made by the researcher by this study are here by being presented in this current chapter, chapter five titled as "Summary, Major findings and Recommendations".

5.2 Major Finding

The major finding of this research study on "Analytical study an revenue planning of NBL" are as follows:

1) Management and personnel

a) It is observed that the bank is adopting a policy to keep minimum number of employees as possible but it has un-necessary long ladder at various levels without specific job description.

b) The decision making process is highly centralized however top management takes the feed forwards for antae planning and strategy building through manager conferences and strategic meeting organized ones in every year at the head office

c) Advanced training to the personnel is lacking.

d) Bank has the policy to employ academically highly qualified (first class MBA and MBS) fresh candidates at deputy manger which may be considered as good aspect for future manpower building.

e) Nepal Bank ltd active and organized planning department to undertake innovative products research and development works.

2. Branch office

a) Nepal Bank ltd is currently operating with its 98 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 commercial Bank in Nepal.

b) Controlling functions of the branches are so far being carried out directly by head office, which may be difficult in these days to come because of its wide geographical stretch.

3. Objectives of the Bank

Objectives of the Bank are expressed in literary form and not specified clearly therefore there is a danger of it being minister prated in the ways of one's benefit by the concerned.

4. Resources Mobilizations.

a. Major concentration of resources mobilization of Nepal Bank ltd. is at deposit mobilization in this respect they are incurring higher cost toward deposit mobilizations.

b. Deposit mobilized by the Bank is found to be considerably not growing every year over the period of last seven years.

c. From the data analysis at deposit budget and actual achievements by coefficient of variance it is found that the actual deposit are little more variable than the budgeted one.

d. The target set fro deposit mobilization by the Bank has been not very well met every year.
e. From regression analysis of the budgeted and actual deposits, remaining the trend same fro the coming year too the deposit to be mobilized by the Bank by the end of F/Y 063/064 shall reach up to 544965 million.

5. Resources Deployment

a) Bank is resources deployment fro non-yielding liquid assets (cash and bank Balance) is not so increasing every year, which is not detrimental to profitability objectives but it is supportive to meeting liquidity requirement of the Bank.
b) Major portion of the resources have been deployed in LDO.
c) The targets fro deployment toward LDO have not been well met every year.
d) LDO of the Bank has found to be not considerably increasing every year, with the period of last seven years.
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 not more variable than the budgeted one.
f) From the regression analysis of budgeted and actual deposit, remaining the trend same as before the estimated LDO by the end of F/Y 063/064 shall be of Rs.6280 million.
g) The data analysis of LDO and deposit with the help of Karl people co-efficient of correlation shows that, the deposit and the LDO are not 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.

5.3 Recommendations.

On the basis of the study on profit planning of Nepal Bank ltd. the following suggestions are recommended to improve the profit planning system of the bank.

A. In the internal management and personnel Past:

1) Level wise specific job description and responsibility assignment show 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 of the Chief executive officer for other Productive use.

3) Objective of the Bank should be clearly defined in order to avoid the risk of it being misinterpreted.

4) Employee training at advance level should be more focus in order to keep the manpower updated with the changing practices and the technologies.

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) It is suggested to the Bank to form a specific planning and Research Department, which shall be responsible for developing new innovative products, farther development and up-gradation of existing products, which in turn ensure better profitable business fro the bank.

B. In the Business part.

1. The average cost of deposit of the Bank of the Bank is high, therefore Bank should try to lower it by mobilization more and more low cost or cost free deposits there by reducing the interest cost because due to the high cost of deposit, Bank is forced to invest its fund more an high yielding assets, which are generally liquid and obviously risky for the Bank.

2. Banks CD ratio is not so high, which is rather a compulsion for the bank to meet the cost of deposits, is not so high. Higher CD ratio although gives better return in short them, it hampers the liquidity and 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. Therefore the Bank should improve its position from lowering. The deposit cost and increases the investments in liquid assets although they are of low yield.

3. LDO of the bank has increasing significantly but the part of proper loan assessment and the infrastructures required (Such as computerized system trained manpower, logistics etc) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LDO. The Bank should keep adequate required infrastructure to support its objectives.

4. 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 from a burden to the gross profit margin (interest margin) of the bank, therefore lowering the other expenses the bank shall enhance its profit now a day.

5. Net profit of the Bank is the amount of net burden from the amount of gross interest margin. Therefore, NBL 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 is more.

6. The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e. spread) not to except 7%. Therefore the bank has to put more focus or the other kind o non- funded activities by which it shall increasing income from other sources than interest to increase its profitability.

With the above-mentioned summary major findings from the study and the recommendations suggested, the report is concluded.

6. Non-Funded Business Activities.

a) Outstanding letter of credit liability of the Bank is increasing every year however the growth is not consistent.

b) Outstanding guarantee liability of the bank is same time increasing and decreasing every year except for the year 063/064 when it is decreased to 8.57%.

7. Expenditure

a) Interest expenses amount is the highest among total expenses items of the Bank every year

b) Other expenses of the Bank are also in increasing trend every year.

a. The interest expenses of the bank are found increasing each year corresponding to the increase in deposit. The interest expenses are not so perfectly corrected with deposit.

c) Average cost of deposit of the bank is found to be increasing during the seven years.

8. Revenue

a) Interest income amount of the Bank is the highest among other income items in the total revenue.

b) The amount of interest income is increasing or positive decreasing trend of the last seven years. Therefore not perfect correlation between interest income and LDO.

c) The other income of Bank is sometimes increasing and decreasing also.

d) The interest spread or the amount of interest margin is found to be sometime increasing or decreasing trend. From the study it is found that during the period of last seven years. Average 650 million of interest income is spent over paying interest to depositors.

e) Average yield on LDO (ratio of interest income on total LDO expressed in % term) was at lowest level of 7.47% in the second year, which increased afterwards and reached up to 12.15% during F/Y 062/063. During F/Y063/064 it has been reduced up to 7.76%. The average yield on LDO for the last seven years has remained at 10.15%.

f) Net burden of the Bank is increasing order easing at different year, but as the average rate of growth of other 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 bank has suffered a loss and profit in different year during the first seven years (057/058 to 063/064) of its operation. It is in constantly increasing trend afterward. As the rate of growth of spread is higher than that of burden, the profitability of the bank is increasing.

9. Ratio Analysis.

a) The average current ration of the bank has found to be always higher than standard ratio of 2:1, which shows satisfactory liquidity position of the Bank.

b) Generally the debt equity ratio of the bank is higher because they mobilize fixed deposit much more times of their capital fund. NBL is also not exception to it. The average debt equity ratio of the Bank is approximately 2:1.

c) The average interest coverage ratio of the bank is 1.26 times during the study period.

d) From the profitability ratio is found that, the ROC (return of capital) is negative for the first year, secured year and third year. Afterward it is gradually except in F/Y 063/064 where is has slightly decreased. This may be due to higher rate of increase in capital fund than that of net profit.

5.3 Recommendations.

On the basis of the study on profit planning of Nepal Bank Ltd., the following suggestions are recommended to improve the profit planning system of the Bank.

A. In the internal management and personnel part :

1. Level wise specific job description and responsibility assignment should be mentioned clearly.
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3. LDO of the bank has increasing significantly but the part of proper loan assessment and ministering aspects are not well developed and the infrastructures required (such as computerized system trained manpower, logistics etc) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LDO. The Bank should keep adequate required infrastructure to support its objectives.

4. Expenses can not be avoided and always are growing with measuring 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 now a days.

5. 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 NBL 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 is norm.

6. The Nepal Rastra Bank has put the restriction on the difference of average rate of interest income and average rate of interest expenses of the bank (i.e. spread) not to exceed 7%. Therefore the bank has to put more focus on the other kind of non-funded activities by which it shall increasing income from other sources than interest to increase its profitability.

With the above-mentioned summary major findings from the study and the Recommendations suggested, the report is concluded.

ACKNOWLEDGEMENTS

This thesis has been prepared for the partial fulfillment of Master's Degree in Management of Tribhuwan University. I have had a rewarding experience while undertaking this research which wouldn't have been completed without the careful guidance and encouragement that I have received from my teachers. I owe my sincere debt to all of them.

I would like to express my sincere gratitude to my thesis supervisor Mr.Shanker Raj Joshi and Mr. Dr Kamal Deep Dhakal for his invaluable and untiring guidance, encouragement and constructive suggestions from the very beginning to the end of the writing of this thesis. I am highly grateful and indebted to Nepal Bank Ltd. for providing me with the essential materials needed to accomplish this research.

I would like to express my deep respects to all my teachers of Management Accountant Department who helped me in one or other way in accomplishing this research. Thanks go to all the teachers and friends their kind hospitability assistance and help.

I would like to express my deepest gratitude to my parents who always encourage me to continue my higher study and my Spouse Lila Devi Kadariya who created favourable environment for the completion of this study.

I owe very much to my friends and well wishers who helped me directly or indirectly to complete this thesis. Finally, I am grateful to Mrs. Gita Khatiwada& Mr. Rajan Prasad Khatiwada (Softeach Computer System, Chabahil, Kathmandu) for typing this thesis.

19th April 2009 **Nabaraj Kadariya**

ABBREVIATION

NBL	:	Nepal Bank Limited
ADB/N	:	Agricultural Development Bank, Nepal
BEP	:	Break Even Point
B/G	:	Bank Guarantee
BS	:	Bikram Sambat
CD Ratio	:	Credit Deposit Ratio
CEO	:	Chief Executive officer
COD	:	Cost of Deposit
CRR	:	Cash Reserve Ratio
CVP Analysis	:	Cost Volume Profit Analysis
FCY	:	Foreign Currency
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
HMG or HMG/N	:	His Majesty's Government of Nepal
ICC	:	International Chamber of Commerce
IFIC Bank	:	International Finance Investment and Commerce Bank
L/C	:	Letter of Credit
LDO	;	Loan, Discount and Overdraft
MD	:	Managing Director
MOU	:	Memorandum Director
NB Bank or NBBL	:	Nepal Bangladesh Bank Ltd.
NIDC	:	Nepal Industries Development Corporation
NLDO	:	Deployment in other sector than LDO
NLSS	:	Nepal Living Standard Serve
NRB	:	Nepal Rastra Bank
O/S	:	Outstanding
PPC	:	Profit Planning and Control

PPP	:	Purchasing Power Parity
RBB	:	Rastriya Banijya Bank
RMOD	:	Resources Mobilization other than Deposit
ROA	:	Return on Assets
ROC	:	Return on Capital
TAS	:	Technical Service Agreement
UCPDC	:	Uniform Customs & practices of Documentary Credit
YOF	:	Yield on Fund

CONTENTS

LIST OF TABLES

LIST OF DIAGRAM

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