"Impact of Profit Planning and Control on Banking Strategies and Managerial Decision"(A Case Study of Nepal Industrial &Commercial Bank Ltd)

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Recommendation

This is to Certify that the thesis

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has been prepared as approved by this department in the prescribed format of faculty of Management, Tribhuvan University. This Thesis is forwarded for examination

Therefore, I recommend this thesis for approval and acceptance

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VIVA VOCE SHEET

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled "Impact of Profit Planning & Control on Banking Strategies and Managerial Decision, A case study of Nepal Industrial & Commercial Bank Limited" submitted to Hari Khetan Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies under the supervision of Mr. Rambabu Prasad chaurasiya, lecturer of Hari Khetan Multiple Campus.

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Suraj Prasad Rauniyar

Date:

ABBREVIATION

ADB/N	:	Agriculture Development Bank, Nepal
BEP	:	Break Even Point
B/G	:	Bank Guarantee
BS	:	Bikram Sambat
BFIA	:	Bank & Financial Institution Act
CD	:	Credit Deposit
CEO	:	Chief Executive Officer
COD	:	Cost of Deposit
CVP	:	Cost Volume Profit
FCY	:	Foreign Currency
F/Y	:	Fiscal Year
GDP	:	Gross Domestic Product
GAAS	:	Generally Accepted Accounting Standard
ICC	:	International Chamber of Commerce
IFIC	:	International Finance Investment and Commerce Bank
L/C	:	Letter of Credit
LABP	:	Loan Advance and Bill Purchased
MD	:	Managing Director
MOU	:	Memorandum of Understanding
NIC	:	Nepal Industrial and Commercial
NIDC	:	Nepal Industrial and Development Corporation

NLABP	:	Deployment in other sector than LABP
NLSS	:	Nepal Living Standard Survey
NRB	:	Nepal Rastra Bank
NAS	:	Nepal Accounting Standard
NPR	:	Nepalese Rupees
NBA	:	Non Banking Assets
O/S	:	Outsanding
PPC	:	Profit Planning Control
PPP	:	Purchasing Power Parity
RBB	:	Rastriya Banijaya Bank
RMOD	:	Resource Mobilize other than Deposit
ROA	:	Return on Assets
ROC	:	Return on Capital
TSA	:	Technical Service Agreement
UCPDC	:	Uniform Customs & Practice of Documentary Credit
YOF	:	Yield on Fund

CONTENTS

Chapter Two: Review of Literature

Chapter Three: Research Methodology

Chapter Four: Presentation and Analysis of data

Chapter Five: Summary, Conclusion and Recommendation

LIST OF TABLES

LIST OF DIAGRAMS

CHAPTER - ONE

1. INTRODUCTION

1.1 Background

The banking sector not only provides the services to the customer, it also helps to develop the economic position of a country. The highest form of economic freedom provides an absolute right of property ownership, fully realized freedoms of movement for labor, capital and goods and an absolute absence of coercion or constraint of economic liberty beyond the extent necessary for citizens to protect and maintains liberty itself. In other words, individuals are free to work, produce, consume, invest in any way they please, and that freedom is both protected by the state and unconstrained by the state.

The role of money in an economy is very important. Proper and well planned management of money directs, determines and enhance the wealth and productivity of total financial sector and the performance of the financial sector affect the growth of the economy. Hence, money is a subject to manage, and banks are the manager thereof.

Integrated and speedy development of any country is possible only when competitive banking service reaches every nook and corner of the country and its people. Nepal Rastra Bank, the central bank of Nepal, to fulfill the ever growing credit requirement has adopted the liberal policies and provided many facilities to the probable banker of Nepal and abroad through New Commercial Bank Act 1974 A.D. Consequent of the policies provided by Nepal Government to open commercial bank with foreign joint venture in 2041 B.S., at present 26 Commercial Bank (including Agriculture Development Bank) are helping not only in the field of deposit mobilization and lending but also to the area like different products and service developments and employment generations and infrastructure developments too.

Bank collects funds from the public who has saving and it disperse the fund to the person who are in need of it. Banks can also be defined in terms of “Negotiators of Credit”. The activity of the banks as negotiators of credit is characterized by lending of other people’s that is of borrowed money. In fact bank borrows money in order to lend it. The different between rate of interest that is paid to them and the rates they pay, less their working expenses, constitutes their profit on this kind of transaction. Banking is a negotiation between granters of credit and grantees of credit.

Banking sector plays important role in the economic development of the country. Commercial Banks are one of the vital aspects of this sector, which deals with the process of canalizing the available resources in the needed between the deficit and surplus of financial resources. Financial system financial institutions and non- depository financial institution. Commercial Banks and finance Companies (In Nepalese context) are the example of depository Employee Provided Fund, Development Banks, Insurance Companies etc. are directly or indirectly channeled through these banks. People keep their surplus money as deposits in the bank and hence banks can provided such funds to finance the industrial activities in the form of loans and advances.

Financial institutions play a major role in the proper functioning of an economy. This institution act as an intermediary between individuals who lend and who borrow. This institution accepts deposits and in turn fends it to people who are in need of financial resources. These institutions make the flow of investment easier. So we cannot deny the role of bank plays in developing and economy. It pools the funds scattered in the economy a large amount of depositor's money is at stake.

Bank came into existence with the objectives of collecting the idle funds, mobilizing them into productive. The bankers have the responsibility of safeguarding the interest of depositor; in shareholder and society they are serving.

1.2 Evaluation of Banking Industry

The origin of modern commercial banking is traceable in ancient times. There is a reference to the of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transactions. Indeed the traces of "rudimentary banking" are found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the after the fall of the Roman Empire after the death of Emperor Justinian in 565 AD, and it was not in the Middle ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon law to indulge in the sinful act of lending money to others on interest. However, as the hold development of trade and commerce about the thirteen century Christians also took to the lucrative business of money-lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twelfth century in Italy and the Bank of Venice, founded in 1157 was the first public banking institution. Following it were established the Bank of Barcelona and the Bank of Genoa in 1401 and 1407 respectively. of Genoa continued to operate till the end of the eighteenth century. With the expansion of commercial activities in Northern Europe there sprang up a number of priv the world. In Nepal, modern banking starts from the establishment of Nepal Bank Limited in 1994 B.S

1.3 Origin of Bank in Nepal

Banking service is the oldest service industry in Nepal. It has gone through the various stages of evolution and development since the Vedic times (2000 to 1400 B.C.). Though the modern banking institution has a very recent origin in were in practice even in the ancient times. In the Nepalese known as Nepal Sambat was introduced by Shakhadhar, a 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of borrowed money to rebuild the Kathmandu valley. In 11th century, during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during reign of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loans advanced. These inconveniences led the Prime Minister Ronoddip (Kathmandu, which was a government financial institution supplying credit to the people at 5% rate of interest against security of gold, silver and ornaments. The government servants were also entitled to take loans from Tijarath, repayable from their salary at the source. During the time of Chandra), credit facilities of Tijarath were extended to some other parts of the country by opening its branches. It is believed that the so-called well-to-do persons used to take loans from private money lenders even at higher rate of interest than those from the government institutions, for they were not prepared to disclose in public anything that was likely to affect by this type of clients, the professional money lenders used to raise loans in their own names from Tijarath at 5% rate of interest against gold and ornaments, which were not their own but brought to for the loans to be financed from the funds raised t any any risks on their own part, the money lenders could manage very well to exploit their especial type of clients just playing the role of middlemen between their clients and the government institution. To control spurious rates of interest and also to curb unfair practice on the part of the unscrupulous moneylenders, legislative measures were also taken.

Later Tejarath was replaced by the first commercial bank, Nepal Bank Limited, during the time of Juddha Shamsher. The Limited is a great landmark in the history of modern banking as it has solved many problems and difficulties which the trade and commerce have been facing. This bank performed commercial and some of the central banking functions, as there was no central bank until Nepal Rasta Bank was established.

In 1956, the central bank of Nepal, Nepal Rasta Bank was established. It was established with the purpose of in the country to promote industry, trade and agriculture as well as to circulate Nepalese currency all over the country.

In 2022 B.S., the second commercial bank of Nepal, Rastriya Banijya Bank, was established with hundred percent equity holding of the government. These two, NBL & RBB, commercial banks.S. With the first joint venture bank, Nepal Arab Bank Limited coming in the scene the monopoly was broken and it paved the way for new joint venture banks to operate in the country.

In 2042 B.S., finance company Act was passed; but private kept stony silence till 2049 B.S. The first break came in the in the Poush of the same year, Nepal Finance and Saving Company. In the following three years, our financial system has witnessed the emergence of number of such finance companies.

1.4 Nepal Financial System

The financial system of Nepal consists of a central bank, commercial banks, finance companies, development banks etc. and it is categorized in the following ways:

Organization	No of Institutions
1. Central Bank	1
2. Commercial Bank	25
3. Development Bank	21
4. Finance Companies	62
5. Co-operatives	17
6. Non Government Organizations (NGOs)	47

Commercial Bank

Commercial Banks are the major component in the financial system. They work as the intermediary between depository and lenders and facilitate in overall development of the economy, with major thrust in industrial development. The banking sector in Nepal stated with the establishment of Nepal Bank Limited. Today, we got 25 commercial banks in operation.

Table 1 List of Commercial Bank in Chronological order

S.n.	Commercial Banks	Operation Date (B.S)	Head Office
1	Nepal Bank Limited	1994|07|30	Kathmandu
2	Rastriya Banijya Bank	2022|10|10	Kathmandu
3	Nabil Bank Limited	2041|03|29	Kathmandu
4	Nepal Investment Bank Limited	2042|11|26	Kathmandu
5	Standard Chartered Bank Nepal Limited	2045/60|16	Kathmandu
6	Himalayan Bank Limited	2049|10|05	Kathmandu
7	Nepal SBI Bank Limited	2050|03|23	Kathmandu
8	Nepal Bangladesh Bank Limited	2050|02|23	Kathmandu
9	Everest Bank Limited	2051|07|01	Kathmandu
10	Bank of Kathmandu Limited	2051|11|28	Kathmandu
11	Nepal Credit & Commerce Bank Limited	2053|06|28	Siddharthanagar
12	Nepal Industrial & Commercial Bank Limited	2055|04|05	Biratnagar
13	Lumbini Bank Limited	2055|04|01	Narayangarh
14	Macchapuchre Bank Limited	2057|06|18	Pokhara
15	Kumari Bank Limited	2057|12|21	Kathmandu

16	**Laxmi Bank Limited**	**2058|12|25**	**Birgunj**
17	**Siddhartha Bank Limited**	**2059|09|01**	**Kathmandu**
18	**Agriculture Development Bank**	**2024|11|02**	**Kathmandu**
19	**Global Bank Ltd.**	**2065/12/23**	**Birgunj**
20.	**Citizens Bank International Ltd.**	**2064/01/08**	**Kathmandu**
21.	**Prime Commercial Bank Ltd.**	**2064/11/06**	**Kathmandu**
22.	**Bank of Asia Nepal Ltd.**	**2064/06/24**	**Kathmandu**
23.	**Sunrise Bank Ltd.**	**2064/06/23**	**Kathmandu**
24	**Development Credit Bank Ltd.**	**2065/11/31**	**Kathmandu**
25.	**NMB Bank Ltd.**	**2065/02/21**	**Kathmandu**
26.	**Kist Bank Ltd.**	**2066/01/24**	**Kathmandu**

Source: Banking Khabar Patra Issue-57

Apart from Commercial Banks, Finance companies, Development Banks, Co-operatives and NGOs, many non-depository financial institutions like Insurance companies, Mutual Fund etc. are also in our financial system.

1.5 Profit Planning & Control

Profit Planning & Control is an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management; it is not an end of management or substitute of management. It facilitates the manager to accomplish managerial goals and managerial decision in a systematic way.
The management is efficient if it able to accomplish the objectives of the enterprises. It is effective, when in accomplishes the ith minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course of action in advance. A systematic approach that facilitates way, a budgetary control system has been described as a historical combination of a goal setting machine for increasing an enterprises profit and *"goal-achieving machine for facilitating organizational coordination and planning while achieving the budget targets."*

Profit does not happen, profits are managed. Profit is the primary measure of business in any economy. Before we go further the managerial process of profit planning, it is important to understand the concept There are several definition of profit. An economist will define that the profit is the reward for the entrepreneurship for under taking the risk. An account will say the excess of firm's profit over the expenditure of producing revenues in given fiscal year.

Planning is the first essence of management and all other function are performed within the framework of planning. Planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermined of future events. The primary purpose of planning in business is to increase the chance of. subordinates has the authority in varying degrees to make the decisions the result of which will nearly accomplish or better his budgetary targets.

The fundamental concept of profit planning and control include the underlying activities or tasks that must generally be carried out to aximum usefulness from profit planning and control. These fundamentals have never been codified. As a basis for discussion, an outline of the fundamentals concepts usually identified with profit planning and control is given below.

- A management process that includes planning, organizing, staffing, leading and controlling
- A Managerial commitment of effectively management participation by all levels in the entity.
- An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels.
- A continuous and consistent coordination of all the management fuctions.
- Continuous feed forward, feedback, follow up a preplanning through defined communication channels.
- A strategic long-range profit plan.
- A tactical short-range profit plan
- A responsibility accounting system.
- A continuous use of the exception principle
- A behavioral management program.

1.6 Conceptual Framework of Profit Planning

The profit planning and control mechanism is being widely practiced in manufacturing Industries but it is– manufacturing / service industries. However this concept equally applies to any kind of business concern for the best utilization of the scare resources and effectively and efficiently achieving its goals.

The main objectives of any business organization are to maximize its profit and at the same time render reliable service to its customers. a great significance for the proper management of organization. Profit is a device with the help of which efficiency of enterprises can be measured. However, profits cannot be achieved without good organizational management.

Before we make an intelligent approach to managerial process of profit planning, it is important that we understand the mconcept. In other words, planning is the first essence of management and all other functions are performed within the framework of planning.

Planning what is to be done in future. Planning starts from forecasting and predetermination of future events.

The main objectives of planning in business are to increase the chance of making profit. The budget is the primary planning operating document committed to performance. In this sense, budget is also called profit plan.

A budget is numerical plan of action, which generally covers the areas of revenue and expenditures. The main aim of budget the future forecasting numerically expressed in appropriate format so as to have proper control over profit and costs.

Profit planning is a comprehensive plan expressed in financial terms by which an operating program can be made effective for a given period of time. It is a tool of direction, coordination and control and as such it is the most important administrative device for these purposes.

Profit Planning and Control (PPC) is the latest invention in the field of modern management. According to G.A. Welsch, P.N. Gordon "A comprehensive profit planning and control is viewed as a process designed managment efely perform significant phases of planning and controlling functions. Specially, PPC model involves:

- Development and application of broad and long-range objectives of Enterprises
- Specification of Enterprises goals
- Development of a strategic long-rang profit plan in board terms.
- Specification of a tactical short rang profit plan detailed by assigned responsibilities (Division, Departments and Projects)
- Establishment of a system of periodic performs reports detailed by assigned responsibilities.
- Development of Follow up procedures. (Welsch, 1999)

The basic concepts of profit planning involves the activities which must be generally carried out to attain maximum usefulness from the mechanism, which starts right from design of budget schedules up to implementations and feedbacks.

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

1.7 Introduction to Nepal Industrial & Commercial Bank Limited (NIC)

Nepal Industrial & Commercial Bank Limited (NIC Bank), which commenced its operations on 21st July 1998 is the first commercial bank in the at Rs. 500 million. The bank that has been in profitable operation from its inception, has managed robust growth in its overall business and profitability during the offers a complete suite of commercial banking products and services including transaction banking, trade finance, project finance, corporate banking and consumer banking. NIC Bank is one of the most widely held banking companies in Nepal with close supported by the management team comprising of professional, has successfully embarked strategy of consolidation, administrative streamlining, human resource up-skilling, strategic cost management, focused non performing assets management, balance sheet and treasury management and controlled assets growth in tandem with strengthening the credit culture and strategic marketing and sales.
NIC Bank has an Authorized capital of Rs. 1000 Million with paid up capital of Rs. 600 million. The promoter group holds 65 % of issued capital million. The general public holds the remaining 35% of paid up capital amounting to Rs. 2 million. The shares are listed with Nepal Stock Exchange. NIC Bank is one of the banks with largest public shareholders with close to 35000 shareholders.

NIC is committed to provide superior banking products and financial services to its patrons through efficient and cost effective service delivery; offering of new innovative product and friendly customer service; and at the same time maintaining confidentially, professionalism & good governance. It consistently and technology supports besides broadening its scope, range and quality of branches are inter-connected with VSAT with micro-wave/leased line/optical fiber back-ups and are capable of providing on-line real time banking services.

The Bank is seriously considering adopting capital adequacy norms under the Basel II accord to the extent applicable to the Nepalese banking industry well before it becomes a regulatory requirement.

The bank believes in continuously offering new and value added services to customer with commitment to quality and value. Accordingly has been in the forefront in launching innovative & superior products with unique customer friendly features with immense success.

1.8 Major Financial Achievements of NIC Bank

The detailed financial position of the Bank is reflected in financial statements (Balance Sheet and PL Account). On the basis of financial fiscal year 2007/2008 and preceding year, we have presented some of the major financial achievements of NIC Bank which are listed as below:

1. Total assets of the Bank have been increased by Rs. 1295 million in the year2006/07, which is growth of approximately 12.5% as compared to the same of preceding year.

2. Deposit mobilized by the bank has been increased by Rs. 1302 million in the year 2006/07, which is a growth of approximately the preceding year.

3. Total outstanding LABP has grown by Rs.2285 million during FY 2006/07, which is a growth of 34.34% from the same of preceding year.

4. The non funded outstanding liability of the bank has grown by Rs.324.57 million during the FY 2006/07, which is a growth of approximately 45.42% as compared to the same of preceding year.
5. The income from the interest has grown by Rs. 84 million during FY 2006/07, which is 25.15% increment than the immediate previous year.

6. Other income than interest has grown by Rs.75 million in FY 2006/07, which is growth by 38% increment than preceding year.

7. The interest expense has increased by Rs.81.15 million that is by 14% increment during FY 2006/07 than the preceding year.
8. Income other than interest has increase by Rs. 74 million that is by 26.91% increment in the year 2006/07 than the preceding year.

9. Expenses other than interest has increase by Rs.61.54 million that is by 28.19% increment in the year 200/07 than the preceding year.

10. Net profit after tax has been increased during FY 2007/08 by Rs.61.89 million which records 64% growth than previous year 2006/07.

11. Total Capital fund of the bank has grown by Rs. 151.53 million that is a growth by 19.77% than that of preceding year.

(Source: NIC Bank Annual Report, 2007/08)

1.9 Statement of Problem

Commercial Banks play vital role in economic growth of a country. As being a commercial institution, a commercial bank must make profit out of its operations for it survival and fulfillment of the responsibility and profitable deployment of those resources which generates income. The differential interest income over the interest cost, which is popularly called spread, can be considered as the Contribution Margin in the profit of the bank. The other operational expenses form a burden margin which the bank are attempting to compensate by other income generated out of non fund based business activities of the Bank. The present study has tried to analyze and examine the PPC side of Commercial Bank taking a Case of NIC Bank. Furthermore, the study has tried to answer the following research question.

1. Does NIC Bank has appropriate profit planning system?
2. Does the Bank mobilize the deposit and other resources at optimum cost?

3. Does the Bank deploy the resources generating satisfactory yield?
4. Does the Bank giving proper attention toward non-funded business activities thereby generating satisfactory amount of other income?
5. What are the overall PPC problems of NIC Bank and what suggestions can be recommended for their proper solution.

1.10 Objective of the Study

The basic objective of the study is to appraise NIC Bank. Appropriately for the application of comprehensive PPC system. Thus the major objectives are:

- To highlight the current profit planning remises adopted and its effectiveness in NIC Bank.
- To observe NIC Bank's profit planning on the basis of overall managerial Budget Developed by the Bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the Bank over the period
- To analyze the impact of PPC on Banking strategies and managerial decisions.
- To provide suggestion and recommendations for improvement of the overall profitability of the Bank

1.11 Scope and Limitation of the Study

In this dynamic world nothing existing are free form limitation. This study also isn't exception. The researcher has however tried to e the limitations to the best possible extent, yet it suffers from the following limitations:

- The study is made for partial fulfillment of the requirement of Masters in Business Studies, in a short duration of time. Therefore only NIC Bank has been taken for this study.
- Only the profit planning aspect of the bank has been analyzed leaving other areas uncovered.
- The study covers the related data of the Bank from FY 2001/02 to 2007/08 only.
- Primary data is collected only from the informal discussion with the personnel of the Bank.

- The accuracy of this study is based on the data available from the management of NIC Bank, the various published documents of the Bank and the response made by the respondent during the informal discussion.

1.12 Significance of the Study

This research study is concerned with the profit planning in commercial Banks with a case study of NIC Bank with the major objectives of examining the proper applicability of profit planning system in the Bank.

Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the help of the best utilization of resources.
Accomplishment of objectives in every organization depends upon the application of scarce resources more effectively. Also the financial performance of an organization depends purely on the use of its resources. Budgeting is the key to productive financial planning. So all the organizations running under the commercial principle have to give regard to these most important single tools while managing their physical and financial targets. If the planning process of an organization is effective and result oriented, the pace of development naturally steps forward. Profit planning is the heart of management. It tells us profit is the most important indicators for judging managerial efficiency and do not just happened for this every organization has to manage its profit. Various functional budgets are the basic tools for proper planning of profit and control over them.

This research study may be useful for those who want to know the PPC in the NIC Bank may also be helpful for further researchers as a reference material.

1.13 Design of the Study

The dissertations are found to be difficult to understand and create confusion if it has not partition into various heads. For our convenience, the entire thesis has been segregated into five parts. They are mentioned as below:

a) Introduction

b) Literature Review

c) Research Methodology

d) Data Presentation & analysis

e) Summary, Conclusion, Major Findings & recommendation

- Chapter first has been entitled as "Introduction" which includes background, Emergence of Commercial Banks in the Economy, General view of profit planning, Brief profile of

NIC Banks in the economy, statement of the problem, objectives of the study, scope and limitation of the study, significance of the study.

- Part two is "Literature Review" which gives Concept of Commercial Banks and their various activities and Broad Picture of PPC and Review of Previous research

- Third chapter is "Research Methodology" which deals with Research Design, Data Collection Procedures and the tools and technique to be employed for the analysis data.

- In the fourth chapter entitled "Data Presentation & Analysis", the data collected from the various sources are presented and process it in readable and understandable form. The graphs, bar Diagram, pie chart are drawn from the data obtained in this part of the study.

- The last chapter is "Summary, Conclusion, Major Findings & recommendation" in which the entire study is summed up. The conclusions acquired from the study are presented in the part of the chapter. The major findings, for which the study had been carried, are also the subject matter of this chapter. After conducting the study, the researcher provides extremely vital recommendations to the scholars, relevant organizations and government in this part. Besides, above chapters, bibliography and appendixes are also included.

CHAPTER–TWO

2. 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 country, the legal and regulatory framework, and profit planning concepts and its applicability in commercial banking activities. In this connection researcher has reviewed various literature in the form of books written by various newspaper, journals, browsing materials from the concerned website, previous dissertations in the relevant subject matters etc

2.1.1 Conceptual Framework

2.2 Introduction of Commercials Banks

The term of 'bank signifies the place where we keep our money for safe keeping as well as for earning some interest or the place from where we borrow money as loan. As regard to the borrowing money from the bank, we may consider its function as that of money lender in our society. But a bank a money lender is later does so from its own resources. The random house dictionary of the English language defines the bank as an institution for receiving money and its some cases, issuing notes and transiting other financial business (Stein and Urdang, 1985:29).

Banks refer 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 an economic system. Maclead, in this book 'theory of credit` has defined the bank not only as an institution, that borrows and lend institution of creating credit. 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. He has taken bank deposit as the debt owe by bank and that particular depositor can set off his liability with his creditor by the deposit in the bank to the extent of his deposit amount.

The commercial bank Act 2031, under which commercial bank in Nepal are established and operated, has defined commercial transactions and which is not specially established with the objective of co-operative, agricultural, industrial or any other of such kind of specified purpose.

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

.

2.2.1 General Activities of NIC Bank

As like other business concern, commercial bank are also very much connected about making profit because profit is the major element of each and every business endeavor for their survival, further development and fulfilling social expectation. In modern business the effectiveness and efficiency of the business organizations and or their manager is measure from the profit earned by them.

Bank deals with the money and perform several financial, monitory and economic activities that are essential for economic development of a country. It is service industry therefore its profit plans are different format than those in manufacturing units. Unlike the manufacturing unit, a bank has and deployment plan and it aims at maximizing the profit out of their activities.

NIC bank being a commercial bank and also a business concern, performs various kind of profitable business activities.

Consumer Bank

- Account in local & foreign currency
- Fund transfer services-local and international
- Credit card service – issuance & acceptance
- 24 hours ATM services
- Safe deposit lockers
- Foreign exchange services
- Consumer finance-auto loan personal loan, home loan
- X –tra banking -365 days banking from New Road & Lalitpur Branch

Corporate & Institutional bank

- Trade finance
- Bonding
- Commercial lending (Working Capital)
- Term lending
- Debt syndication
- Electronic banking
- Cash management

2.2.2 The Management

2.2.2.1 Board of Directors.

The composition of the board of Director of the Bank is, as per the Company Act and Bank and Financial Institution Ordinance 2062. The Director of the Bank are eminent personalities drawn from various have been contributing their professional knowledge, experience and expertise in their respective areas of specialization for the development of the Bank. The Directors are fully committed to the Corporate governance model adopted by the Bank, which among others, encompasses the principles of full disclosure and transparency,

social responsibility and accountability, "zero tolerance" compliance culture, business and customer confidentiality, intolerance of conflict of interests, and an independent management.

Jagadish Prasad Agrawal	Chairman
Tulshi Ram Agrawal	Director
Lokmanya Golchha	Director
Nirmal Kumar Agrawal	Director
Rajesh Aryal (Public Shareholder)	Director
Birendra Kumar Sanghai (Public Shareholder)	Director

2.2.2.2 Management Team

The management team of NIC bank is very professional, qualified and experienced. They believe on customer service and target oriented objectives.

Management Team	**Branch Manager**
Sashin Joshi Chief Executive Officer Niraj Shrestha GM & Head Business Banking Bimal Daga Head- Credit Business Banking Purna Man Napit Head Audit & Compliance Bam Dev Dahal Manager- Projects & Strategic Sourcing Bhanu Dabadi Manager- Consumer Lending Deepak K. Shrestha Manager- Credit Consurmer Banking Saroj Guragain Manager- Treasury & Correspondent Banking Prabin Basnet Manager- Operations Sushil Bhattrai Manager- Information & Technology Saroj Shrestha Relationship Manager-Business Banking Bhesh Raj Khatiwada Relationship Manager-Business Banking Rajesh Raj Gautam Manager- SME Sanchita Gorkhali Manager- Human Resource Biplove Singh Manager-Corporate Affairs	Arjun Kr. Chhetri New Road, Kathmandu Binay Dahal Adash Nagar, Birgunj Birendra Thakur Ganesh Chowk, Lahan Bishnu Pandey Rajmarg Chowk, Damak Yogendra Rana (Officiating) Mahendrapath, Dharan Yuba Raj Dahal Birendra Nagar, Surkhet Dinesh K. Shrama Ram Mandir Chowk, Janakpur Jayendra Rawal Mahendra Pool, Pokhra Pradeep Chalise Kamaladi, Kathmandu Prajeeta Joshi Batisputali, Kathmandu Priyanka Ranjit Suryavinayak, Bhaktapur Rajendra Luitel Dhangadhi, Kailai Ashok Gurung Shrawan Path, Butwal Saroj Kumar Chaudhari Surkhet Road, Nepalgunj Shiva Gopal Risal Bhadrapur Road, Birtamod Sudhir Agrawal Main Road, Biratnagar Umesh Acharya Pulchowk, Lalitpur Bal Krishna Shrestha Kirtipur, Kathmandu Smriti Bhandari Samakhusi, Kathmandu

2.2.2.3 Different Products of NIC Bank

Bank believes in continuously offering new and value added services to its customers, with Commitment to quality and value to its client at the same time. Accordingly the bank has been in the forefront in launching innovative and superior products having unique customer friendly Feature with immense success.

a. **NIC Shareholder Saving Account**

A new era banking call for a new and value added service to customer. With commitment to Quality and value to our shareholder we are happy to introduce a primer service account especially for our valued 000 –NIC shareholder saving account – with attractive interest rate any many other attractive features. The main attraction of the product is that shareholder can open an account with an initial deposit of only Rs.1000

b. **NIC USD Super Saving Account**

NIC USD super saving account is a high yield US dollar saving account scheme with unique features never before introduced in the Nepalese Market. The product is especially designed to cater to the need of a wide-range of individuals with USD earning /saving with its unique features and flexibility, which will fill a long – felt void and help cater to the aspirations of our valued customer to maximize their returns on their hard earned USD Savings.

c. **NIC Small Business Loan (*Easy Process / Attractive Interest Rate*)**

"NIC Small Business Loan" is a simple and cost effective loan product aimed at catering to the financing need of a wide range of small and medium business enterprises. It has been felt that businesses in these segments generally do not have easy access to bank finance and even where available, cumbersome procedure, work and high cost of finance are believed to be major deterring factors. NIC Small Business Loan has been designed specifically addressing these factors and offer a loan product to the best suit the need of small and medium sized businesses. People owing small businesses or self-employed professionals now will no longer need to fell intimidated bank for a loan. The paper work of NIC Small Business Loan is minimal and once the loan is approved there will be no need to any other information to the Bank periodically as long as the repayment is regular.

d. NIC Sikshya Kosh (*Ensure Your Child's Higher Education*)

"NIC Sikshya Kosh" is a deposit product with an aim of inculcating the habit of putting aside small amounts of money every now and then to ensure one's children's future university educations, which can be very expensive and difficult to meet if one does not plan ahead. Furthermore, in normal accounts there is either no or very little return on the money saved and it does not "GROW" over time. NIC Sikshya Kosh is the perfect saving solution for such parents as once parents open the account they know that it is a future fund for a dedicated purpose and the temptation to withdraw for other the purpose would be low and there is complete flexibility to deposit any amount, and time and at any NIC Bank branch.

e. NIC Ghar Subidha (*Never Before -6.99%*)

"NIC Ghar Subidha" is a personal property finance suite a product with unique features never before introduced in the Nepalese market. It aimed at helping to make it possible every middle class Nepali family's dream of house come true. With the low pricing and other features bundled in the product, a middle class family will not have to wait until retirement to fulfill their dream

f. NIC Life saving account (5%p.a nothing less)

A new era in banking calls for a new and value added service to customers. With commitment to quality and value to our clients, we have introduced our prime saving account "NIC Life savings Account". This is the first and only deposit product in the banking industry in the country bundled with life insurance cover.

g. NIC SMS Banking (your bank account always moves with you)

The bank launched "NIC SMS Banking" service which allow NIC customers to access their account through mobile phone at a true "anywhere, anytime, anyhow" convenience .

h. NIC Cash Card (Smartest way to carry cash)

In order to access account through net worked ATMs and POS terminals, "NIC Card" has been launched in association with smart choice technologies (SCT). NIC card allow its holder to withdraw cash, inquire balances and make payments.

I. NIC Travel Loan (Enjoy Now Pay Later)

NIC travel loan" will get you where you want to go, whether it's business or pleasure, don't worry about money, and just enjoy the trip.

j. NIC Auto Loan (Move in Style)

"NIC Auto Loan" is a reliable bridge leading to the possession of vehicle of own choice. Under this product the bank finance for different personal, commercial & institutional customer to purchase the vehicles in their choice.

k. NIC Pure Gold

The bank has also launched a first of its kind innovative product introduced by a bank in Nepal-NIC Pure Gold. Although there is a sizeable demand of gold in Nepal, Nepalese consumer are always uncertain of the quality of gold available in the market. With the bank now importing certified 99.9% pure international/mints/suppliers, quality to consumer and gold traders is assured. The gold offered by the bank can be purchased by anyone including gold dealers. The bank also offers a facility to avail loans to purchase gold and provides custodial service under which buyers may choose to keep the purchased gold safely in the bank instead of talking high risk of storing it at home.

l. NIC Sajilo Karza (NSKza)

The bank launched NIC Sajilo Karza recently. It is a simple overdraft facility developed to cater to the personal financing need of salaried individual, self employed, professional and owners of small family business, NSKza is structure as a simple easy to understand overdraft facility,

Which provides full flexibility for withdrawal of funds and repayment at the borrower's convenience without the need for the any further process, borrower-determined usage and saving on interest cost.

m. Karmashil Bachat Khata(KBK)

Another unique innovative deposit product recently launched by bank is Karmashil Bachat Khata with a very low initial balance requirement. The product is designed specially for employees and aims to serve low/middle class individuals working in various organizations. Whilst a number of banks and financial institutions have increased significantly post 1990,a large chunk of employees are still out of reach of banking sector. The bank has therefore brought out this product aiming to make banking accessible to such employees.

n. Shareholder Saving Account

The bank has also come up with another unique deposit product called NIC shareholders Saving Account for the benefit of its shareholder.The main objective of this account is to accumulate the widely scattered deposit of shareholders them modern &innovative banking service plus a good return on their savings. Now shareholder will no longer be required to queue up to receive dividend payments as the same will be directly credited to their account.

o. Days Banking

The bank has just started 365 Days Banking Service that includes Cash Withdrawal/Deposit, Foreign Currency Exchange and Travelers' Cheque facilities, Which are available form its Kamaladi, New Road & Lalitpur Branches. The bank has also been providing evening counter facility from its New Road , Lalitpur & Birtamod Branches.

p. NIC Business Account

The bank has also launched another innovative deposit is NIC Business Account with a very low initial balance requirement. The product is designed specially for small/middle/large enterprises and aims to serve whilst a number of Banks financial institution have increased significantly post 1990, a large chunk of enterprises are still out of reach of Banking Sector. The Bank has therefore brought out this product aiming to make Banking accessible to such enterprises.

q. NIC Pure Silver

The bank has recently launched a first of its king innovative product introduced by a bank in Nepal-NIC Pure Silver. The Bank in importing now certified 99.9% pure silver from reputed international mints/suppliers, quality to consumers and silver traders assured.

2.2.2.4 Human Resource

The bank recognizes that the most an important factor for the success of the bank is its people. Hence to keep its competitive edge the bank rewords them and invests in them appropriately. The bank continued its commitment to acquiring development and enhancing its human resource potential. The bank views its human resource capital as a key source of competitive advantage consequently, development and management of human resource capital is an essential element of the bank's strategy and a key management activity. Continuous enhancement of knowledge and skill sets is vital to sustain the growth momentum given the rapidly changing business environment and the constant challenges it poses to the organization. The bank believes that building a learning organization is critical to being competitive and meeting customer expectations. To maintain its competitive edge the bank on training staff puts a great emphasis. To improve the skills and know-ledge of staff, the bank continuous to provide development programs.

2.2.2.5 Share Structure of NIC Bank

Nepal industrial and commercial bank Limited were corporation in 21st July 1998, by the distinguished b business personalities of Nepal. Nepal industrial and commercial Bank Limited were established under banijya bank Act 2031 to promote and expand the banking activities throughout the country with the approval of Nepal Rastra Bank. NIC has its head office in Biratnagar and its corporate office is situated at Kamaladi, Kathmandu.

Promoter's Share
65%
General Public
35%

100%

Authorized Capital
1,600,000,000

Issued Capital (95,04,000share @ Rs.100 each) 950,400,000

Paid up Capital (94,38,771 share @ Rs.100 each) 943,877,100

Total Capital
943,877,100

2.3 Board Technology and products and Branding of NIC Bank

2.3.1 Technology

The bank has successfully networked all of its branches. The branches are inter-linked and transaction is processed on a real time on line basis. The bank is also planning to centralize its data processing and other bank – office functions in order to enhance processing efficiencies and to establish a more reliable disaster recovery mechanism.

The bank has been pioneering in launching innovative and superior product with unique customer friendly feature. In this context the van launched a new product NIC pure Gold & silvers a first of its kind innovative product introduced by a bank in a country. With NIC Bank now importing certified 99.9% pure gold & silver from reputed international mints, unofficial import in bount to get discouraged, contributing to the increase in government revenue and insuring quality to consumers and gold traders.

The bank has also launching NIC Sajilo Karza a simple to understand, simple to use to overdraft facility development to cater to the personal financing needs to salaried individual, self employed professionals and owners of simply family business.

During the review period, the bank also launched some deposit product, of which the Shareholder saving account was especially for the benefit of its own shareholders. the main objective of this account is to accumulate the widely scattered deposits of shareholders and provide them with modern & innovative banking service plus a good return on their saving. the bank has continuously enriched its brand building to increase value its business. The bank believes that branding is valuable intangible asset. In this context, in addition to launching various campaigns for brand building the bank also became the first commercial bank in the country to be awarded ISO 9001:2000 certification for quality management system. The bank also became the first bank in the country to be provide a line of credit by International Finance Corporation (IFC), an arm of the World Bank Group under, its Global Finance program.

2.4 Community Work and Awards Recognition's and Achievement of NIC bank

2.4.1 Community Work

This bank has always plays an active role in supporting those communities in which is customers and staff lien and form which it derives its profit. The Bank in Nepal is focused on project that assists education welfare of community.\

As a part of the bank's social responsibility the bank is now actively involved in community welfare activities. While the bank as corporate citizen pay tax from its profit every year contributing to the national revenue, the bank as good corporate citizen also believes in doing its bit for the betterment of the disadvantaged people of the community where the does its business. To start with, the bank has initiated a scholarship programme for 10 girl children of poor and underprivileged communities studying in a community managed school at Dhapasi, Kathmandu. The bank intends to expend its philanthropic service by creating a charitable foundation whose the sole purpose will be to help communities. Toward this, the bank is committed to ploughing back a certain percentage of its profit every year for helping societyin the areas of education and health. During the review year the bank has also conducted a blood Donation program taking into account the scarcity of the blood in the blood bank of the valley The program was a massive success with more than 100 donors participating for the noble work.

2.4.2 Award, Recognitions and Achievements.

THE BANKER BANK OF THE YEAR 2007 AWARD

The bank's achievement following these strategic measure are considered well-reflected in recognition by Nepal Rastra Bank, the central bank of Nepal, as the highest rastra Bank amongst all private sector commercial bank in the country, based on the internationally recognized "CAMELS" rating during and assessment done in April 2005.

It is a matter of great pride for the bank that for that first time in the history of Nepal. the banker financial times awarded the 'Bank of the year 2007 Nepal' to your Bank. this was recognition of the bank's excellent performance stringent compliance culture his safely, introduction of new technology and successful strategy diversification into new products.

The bank became the first commercial bank in the country to be awarded ISO 9001:2000 certification for quality management system. the bank also became the first bank in the country to be provided a line of credit by International Finance Corporate (IFC), am arm of the World Bank Group, under its Global Finance program.

2.5 Board Objective and Goals of NIC bank

NIC bank has defined it's objective goals in it's mission and vision statement, which state as follows :

2.5.1 **Vision**

The vision of the bank has been state as "Banker with state of art technology strive for growth with profitability professionalism and excellence.

2.5.2 Mission

The mention of the bank state as "we at NIC bank, our goal is to and achieve the highest standard of the professionalism and service to service to create a lifelong relationship with our client by providing customize financial products service through proactive management with complete financial solutions.

It further states "our multinational term of innovative and dynamic master march across the geographical and cultural dynamic with contemporary competitively designed differentiated quality financial products and service to achieve strategic advantage in a dynamic environment."

This, the objective and goals set by the bank can be noted from above statement follows:

- To highlight the current profit planning premises adopted and its effectiveness in NIC bank .
- To observe NIC Bank's profit planning on the basis of overall managerial Budget Development by the bank
- To analyze the variance of budgeted and actual achievement
- To study the growth of the business of the bank over the period
- To analyze the impact of PPC on banking strategies and managerial decision
- To provide suggestion and recommendations for improvements of the overall profitability of the bank

2.6 Future plans of NIC bank

The downturn in the overall business shows no sign of immediate recovery. the recent happenings in and around the country may continue to have an advance impact on the business environment including the tourism sector as no immediate respite is expected in the near future.

With new investments drying up it is going to be a major challenge for your bank of maintain its current level of performance. To do this going forward our focus will be to protect our corporate business , expect our activities in consumer banking and control costs through productivity improvement and strategic cost reduction . We believe than our unmatched customer the bade our people strength that we have in the financial service sector in the country will go a long way to help us achieve our targets for this year.

As a responsible corporate citizen we plan to continue our support to child education and environmental protection and other worthwhile project benefiting the community.

2.7 Significant Accounting Police of NIC Bank

1. General Information

NIC bank is limited liabilities Company domiciled in Nepal. Its registered office is at Biratnagar , Nepal and corporate Office at Kathmandu, Nepal. The Bank is listed with

Nepal Stock Exchange Ltd and provides full commercial Banking Services as authorized by NRB.

2. Basis Preparation:

The financial statements presented in Nepalese rupees (NPR) and are prepared on historical cost convention applying accrual basis of accounting expect otherwise stated and prepared in accordance with the Nepal Accounting Standard (NAS), Generally accepted Accounting principles (GAAP) Bank financial Institutions Act(FBIA) 2063, NRP directives and the Company Act 2063.

3. Interest Income:

Interest income on loan and advance are recognized on cash a basis as per NRB directive, which is not in accordance with NAS that prescribes recognition on accrual basis.

4. Commission Income:

Commission income is accounted for an cash basis. However commission receivable on L/C and guarantees exceeding NPR 50,000 with a maturity period exceeding one year from the date of the transaction is accounted for an accrual basis and prorated over the tenure of the transaction.

5. Dividend Income

Dividend income on equity investment recognized on cash basis.

6. Foreign Exchange Transactions:

foreign currency assets and liabilities including gold are translated into NPR at the mid-rate between the prevailing buying and selling rates of the bank on the Balance Sheet Date. or loss realized on the foreign exchanged transaction including gold is recognized on the date of transaction and included under exchange Gain/Loss as the cash may be as trading Gain/Loss Gains/losses arising due to fluctuation in exchange rate of different foreign currencies including gold is accounted for on a daily basis an shown as Revaluation Gain/Loss. 25% of such revaluation gain a transferred to Exchange Fluctuation Reserve through profit/Loss Appropriation Account As NRB Directives

7. Interest Expense:

Interest on deposit liabalities and borrowing & from others bank are accounted for accrual basis.

8. Loan ,Advances, Overdraft and Bill Purchased

Loan and advances, overdraft and bill purchased include overdrafts, term loans working capital loan, cunsomers loans and loans given priority and deprived sectors and other loans extended to customers as per the Bank's policy. These assets are graded pass, substandard doubtful and loss assets as per NRB directives. Loans and advantage are presented net of loan loss provision.

9. Loan Write Off

The Bank has" management Deteriorating Credits and Write Off Policy" Approved by the Board of Directors, to provide framework for efficient of deteriorating credits as well as Non-performing Assests which also provides a transparent and effective write-off policy . specific loans that meet criteria stipulated in the policy are written without prejudice to banks write right of recovery .

10. Staff Loans:

Loan and advance to staff granted in accordance with the staffloan scheme reflected under other assets.

11. Loan Loss Provision :

Provision for possible losses have been made to cover doubt ful loans and advances, overdraft bills purchased the level of loan loss provision is determined from 1% to 100% on the basis of classification of loans and advance overdraft bill purchased in accordance wit the directives of the central bank.

12. **Investment:**

Investment in treasury bill and Government Deployment Bonds are those, which the bank purchased with the positive intend and ability to hold until maturity. Such securities are record at cost or at cost adjusted for amortization of premiums are discounts certain investments held strategize purpose are state at cost and no markup/down is made for any discrimination in their values.

Premiums and discount are capitalized and amortized from the date of purchase of maturity.

All investment is subject to regular scouting according to the directive of the central bank

13. Fixed Assets :

a) Fixed assets are stated at cost less accumulated depreciation .
b) Assets with a value of less then NPR 2,000 are charged off the revenue irrespective of their useful life in the year of purchase
c) Depreciation is charged to P/L Account on a written-down-Value method over the estimated useful life the relevant assets . The rates of depreciation based on the estimated useful life are as follows:

Nature of Assets	Depreciation Rate(%)
Building	5
Vehicles	15-20

Office Equipment	25
Computer and Accessories	25
Furniture	25

d) Depreciation is charged from the month subsequent to the month when assets was accounted for. In case of disposal, depreciation is charged up to the previous month of such disposal .

14. Non -Banking Assets

Non Banking Assets (NBA) is valued at the lower of the principal outstanding or distress value of the assets acquired . provisions for NBA are made in accordance with NRB directive

15. Software Expenses

Software applications purchased by the Bank are capitalized over a period of five years from the date acquisition.

16. Amortization

Expenses incurred on improvement and renovation of leasehold property is amortized over a period of five years from the date of such improvements irrespective of the life of lease exceeding 5 years.

17. Retirement Benefits

The bank has scheme of retirement benefit , viz provident found and Gratuity. Periodic contributions made to provident fund are recognized at the time of contribution to the approved fund . provision for gratuity , for eligible employees, is made on accrual basis and is transferred to the approved retirement found , independent from the bank . Accumulated leave payable to staff is recognized on accrual basis as per the service rules of the bank.

18. Stationary Stock

Stationary purchased are state at cost and charged to revenue at time of consumption .

19. Provision for Taxation

Provision for taxation has been made on the basis of the Income Tax Act 2002 and amendments thereon

2.8. Major Activities of a commercial bank

Traditionally the primary activities of a bank are essentially accepting deposits and making loan 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’ are the activities of accepting deposit from the other for the proposes of lending or investing repayable on demand after some stipulated time period by means of generally accepted procedure .(Commercial Bank Act ,2031)

In the book ‘Law of banking ‘, Dr. H.L Hart says “ A banker is on who in the ordinary course of has business honors cheque drawn upon him by person from and for whom IK receives money in has current account “(Hart, 1931).

In the book, Banking Law and practice , written by Gulshan & Gulshan has quoted H.P She LABPn’s opinion as, “The function of receiving money from his customers and repaying ii by honoring their cheque as and when required is the function , above all function , which distinguish a banking business from any other kind of business.”

Similarly, the same 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 account (ii) take current accounts (iii) issue and pay cheque drawn on himself and (iv) collect cheque for hi , customer.” (Gulshan &Gulshan, 1994)

From above points, it is clear that a commercial bank’s primary activities are two fold viz on that of accepting deposit from public, which is the major source of the resources of the bank and another making loan 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 been categorized in to folds as below:

1) Mobilization of Resources &
2) Deployment of Resource

2.8.1 Mobilization of Resource

Resource of commercial bank constitutes as like in other business institutions,

1) The owner fund and
2) 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 reserve and provision items allocated out of profit of the bank are also considered as the supplementary capital fund, Owner’ 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 weighted assets)to be of at least 12% by the end of Fiscal year 2060/61.

Similarly, the commercial banking act 2031 has made a mandatory provision for every Commercial bank to build the general reserve out of the allocation of at least 20% net Profit amount each year until the amount becomes double the paid up capital. 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 banks/or central bank.

B. customer Deposits

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

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

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

The time deposits consisting fixed deposit and partly saving deposit are called so because these can be withdrawn only after the expiry of the stipulated period for which these has been made. Banks offers interest on these accounts varying the duration of deposits maturity Time deposits are kept generally by individuals, educational institution, charitable trust and other 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 saving." (Commercial Bank Act – 2031). Banks generally impose certain restrictions withdrawal from the such accounts.

The bank in the name of the depositors keeping fixed for the certain time opens fixed deposit accounts. Account in such accounts are called time liabilities of the bank because the no is payable on the expiry of a fixed period of time which the depositors chooses as per convenience. The commercial banking act-2031 defines fixed deposit account as the " bank account, is having money in it for an specific period of time."

C. Other Liabilities

Resources other than the capital fund and customer deposits are the other liabilities of bank. It includes short-term borrowed fund from other funds locally or foreign and Central bank. Such borrowings are called inter bank borrowing which are normally obtained for very short period and those are meant temporary liquidity crunch in the bank. The rates of interest on such borrowing depend 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.

2.8.2. Deployment of resources

Deployment of resources of the bank means utilization of bank's fund in such a way that it ensures liquidity as well as gives some earning of meeting its operating expenses and optimum return on the shareholders 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.

Every Bank strives to maximize its earning by employing its surplus cash by lending it to the prudent borrowers in a Manner which in no way impairs its capacity to pay on demand the acquired funds to their owners.

Thus for a banker, deployment of the available resources is a challenging job, because the liquidity and profitability are the opposing 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 in such a between various forms of competing Assets in such a way that a proper balance is struck between the opposing consideration of liquidity and profitability. The Sound balance will be achieved when the bank has sufficient (and no more than sufficient) cash in hand to meet every claim that is or is likely

to be made by its depositors on it and at the same time it earns profit for its shareholder.(vaish – 1996)

Therefore the deployment of resources or assets portfolio building of a bank should be guided by major two considerations viz. the liquidity, and the profitability.

A. Assets portfolio for liquidity

Liquidity in a bank means its capacity to convert its deposit liabilities in to cash. As major portion of bank's resources constitute customer deposit which are subject to repayable on demand or after some time 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 at their account in Central Bank (NRB). As said earlier, maintenance of excess liquid asset that required is detrimental to the profitability objective of the bank as the 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 (CRR) from time to time. Current CRR fixed by NRB for commercial Banks is as below:

- Balance to maintained at NRB Account :- At least 5% of current, saving and fixed deposit amount.

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

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 investment: can easily be Liquidated if required thus as a feature of liquid assets as well as giving some yield out of it also. Therefore it is in second line in terms of liquidity apart from cash am balance of NRB.

C .Loans, Overdrafts and Discounts (LABP)

Banking business essentially involves lending. In fact the deposits are accepted for lending to investment. This is the most profitable activity of a commercial Bank. Banks being business proposition, it must declare handsome dividends to its shareholders. Unless the profit outlookof 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 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 in selecting the borrowers. Generally Banks lending is guided by their lending policies. Generally principles to a sound lending policy of a bank are as follows:- (Gulshan & Gulshan, 1994)

1. ***Safety:*** Bank's lending should be secured by way of tangible securities and /or personal Security **(**Guarantee) of a borrower.
2. **Liquidity:** As the bank of fund in the bank are short - term fund received as deposits, it is prudent to confine in to short – term advances, which can be repaid quickly.
3. **profitability:** The major income of a bank comes from the difference in interest earned from the borrower and interest paid to the depositors, which is termed as 'spread'. The interest rate of lending depends upon the purpose of advance and the risk involved. Greater the risk involved higher will be the rate of interest charged.
4. **Risk Diversification:** The famous saying "don't put all the eggs in one basket" is the fundamental base of the principle of risk diversification. As there is risk in even, advance bank should spread the risk by lending to larger number of borrowers.

loan amount depending on the grade in which a particular loan account falls). Such allocated amount is called Loan Loss Provision amount and is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible extent. Generally banks make their advances in the forms of loans, overdrafts, cash credits am Bills discounting .

In a loan account, the entire amount is disbursed to the borrower, which is repayable it installment or in Lump sum on the expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The Types of loans may be pledge loan, demand loan, Hire Purchase, import finance (transit loan), Export Finance (packing credit), loan against fixed deposit, against government securities, against shares etc.

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

Cash credits 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 up on 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 the endorsement on the documents, the title on the payment up on liquidity is transferred in favor of the bank that documents it. Bills may be clean or documentary. If it is a clean negotiable cheque, 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 invoice, transport documents etc.) it becomes the documentary Bill. Bills discounting is short-credit availed by the bank in which bank gives the value of the bill (called negotiation) deduction 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 interest bearing deposits accepted by the bank. Such expense 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 succe--ssful banker pays adequate attention toward lowering its interest cost by marketing low cost deposit and building optimum portion of interest free deposits in his deposit mix.

Deployment of resources in income generating assets (loans and investments) is the income yielding activities of the Banks. Higher the proportion of loan and advances in the asset portfolio, higher will be the yield 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 banks have to meet their other operational costs and give out the dividends to the shareholders. Therefore Bankers attempt to increase their Spread in order to improve their profitability. 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 50% only (NRB, Circular).

Loan Loss Provision

The Central Bank (NRB) has made a mandatory provision for all the bank to classify their outstanding LABP on the basis of aging into four grades viz. pass loan, Substandard, doubtful and Loss (BOD, NRB, 2001). The loans falling under the respective grades are identified on the basis of the overdue position from the date of maturity of the loan and the amount shall have to be allocated from net income in order to provided for against the loan loss at various rates (from 1%to 100% of

Other income generating activities of the banks

Banks do some other kind of business, besides deployment of funds, which are popularly bank guarantee transactions, issuing Letter of Credit, cheques/drafts collection, remittances, etc. In such activities banks do not have to involve their fund and yet they are charging some fee as commission for such services provided. These transactions are called non-funded transaction. While issuing a Bank guarantee, the banker is issuing a guarantee letter on behalf of his client guaranteeing the performance of the client and assuring the employer of paying him the amount of guarantee in case the client fail to perform. Bank guarantee liabilities are the contingent liabilities of bank, which shall become actual liability only when the client fails to perform as per the contract with the employer

Letter of Credit (L/C) is the instrument widely used in export import transactions. Bank issue L/C assuring the seller for making payment of the good (up to the value and currency the L/C),provided the terms and conditions mentioned in the L/C are fully complied with. By means of this facility provided by the bank, the international trade has been made possible in the country. UCPDC (Uniform Custom and Practices of Documentary Credit) published by ICC (International Chamber of Commerce) is the literature, which provides the uniform in the L/C transactions world wide. Besides this, the L/C transactions of commercial Banks are largely guided by the directives issued by Nepal Rastra Bank, Foreign Exchange Department. Letter of credit issuance is also a contingent liability for a bank. Banks ea income in the form of commission while issuing L/C. Further, in case if foreign current L/C, if the client does not have his own
source of foreign currency for making payment un L/C, he has to buy the same from commercial banks, on which banks may earn profit on s of FCY. Generally the Banks has to maintain sufficient balance of convertible FCY in or to meet their L/C payment in the currency stipulated. When the exchange rate is in up way, trend, banks gain by revaluation on their FCY reserves.

Concept of Burden

During the establishments and operation of a bank, it has to incur various kinds of expend besides the expenses incurred for interest payments. Such expenses are employees expend administrative expenses, depreciation on fixed assets, other operating expenses, expense loan loss provision, interest suspense expenses, employ bonus expenses, expenses for increase tax provisions etc. All such expenses other than interest expenses cumulatively form a bur to profitability. The Spread earned by the Bank must be at least enough to meet the burden order to break even. However the other income (income other than interest income) ear by the bank from their other activities besides Rind lending contributes to lowering burden thereby increasing the profitability of the Bank. Therefore the net burden (on expenses less other income) has been termed as Burden.

2.9 Profit Planning as a concept

"The term comprehensive profit planning and control has recently come into extensive in the business literature. It has its synonyms like comprehensive budgeting, managerial budgeting and budgeting." This term is broadly defined as a systematic and formalized approach for performing significant phases of the management planning and control functions. Profit planning and control includes the following matters:

1. The development and application of broad and long range objectives for the enterprises.
2. The specification of enterprises goals.
3. The development of strategic long-range profit plan in broad terms.
4. The specification of tactical short-range profit plan detailed by assigns responsibility (division, products, projects).
5. The establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures." (Welsh, 1999)

In many of the better-managed companies, comprehensive PPC has been identified as a way of managing. It focuses directly up on a rational and systematic approach to management b\objectives and realistic flexibility in performing the management process.

"The international management institutions conference on budgetary control held at Geneva in1980 has defined profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention to opportunism in management." (Int'l mgmt institutions Geneva Conference Doc., 1980)

"Profit plan is an estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss." (Ninerneire & Schmidgall, 1984)

Profit plan represents an overall plan of operations, covers a definite period of time and formulates the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to facilitate effective performance of the management process.

Now a days profit planning system is especially familiar to business organization but the practicability of it depends upon the size of the business. The common objectives of PPC system whether applied to business administration is to formulate policy as well as with the implementation of policy. And an objective established after the consideration of the probable courses of events in the future. In conclusion PPC is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of attaining the optimum profit in the enterprises.

2.10 Components of Profit Planning and Control

2.10.1 Profit

2.10.1.1 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 - (l(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." (HorNICy-1992)

According 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-term survivability of the enterprises.

2.10.1.2 Long Range and Short Range Profit Planning

Long range and short range profit plans mean 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 decisions and ideally a high level of management participation." (Welsch,1999)

2.10.2 Planning

2.10.2.1 Meaning and Concept of Planning

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

- (To do something) arrangement for doing or using something, considered 01 workout in advanced.
- Way of arrangement something especially when shown on a drawing scheme.
- Go according to plan." (HorNICy, 1992)

"Planning is deciding in advance what is to be done in future." (Bhusan, 1976) Planning is a method of a course of action to achieve a desired result. And it is a method o thinking out acts and purpose beforehand. Planning starts from forecasting am determination of future events. It is the first functions of management and all other function are performed with the framework of planning.

"Planning is the process of developing enterprises objectives and selecting a future course o action to accomplish them. It includes developing premises about the 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 and therefore bears an element of uncertainty in respect of its success. Management planning and control begins with the establishment of the fundamental objectives of the 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 employees 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 cannot 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 a whole and in the light of this, the goals of the various departments of the organization. Then, he proceeds to prepare a kind of blue print mapping out the ways of attaining these objectives naturally then all other functions of the manager depend up on planning." (Bhusan, 1976)

Planning is the backbone functions of the management. Hence, we can point 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.

2.10.2.2 Long Range and Short Range Planning

Long range planning is closely concerned with the concept of the organization as a long living institution. It is most important for broad and long living enterprises. Long range planning varying 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.

2.10.2.3 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 plan. 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 whole 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 is designed to do something, decides what you want it to do.
- In these days of rapid change it is necessary to look ahead as far as possible u anticipate these changes.
- Instead of treating a company as a collection of department, treat it as ; corporate whole.
- Take full account of the company's environment before doing up any plan. (Robertson A.-1968)

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

- Achieving objectives.
- Embodiment of goals and objectives in the Enterprises.
- 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.

2.10.3 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 to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

According to I. M. Pandey "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 involves 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 order ly way to attain goals and also provides a time schedule for future action to produce, measure result". (Pandey, 1991)

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

2.10.4 Forecasting Vs Planning

Planning and forecasting often are confusing of being the same. But they are not same, although related. The notion 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 decisions about most attractive alternatives for the organization. Thus 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.

2.10.5 Control

After being clear about the concept of profit and planning we move towards the third component of profit planning control i.e. control. The dictionary meaning of control is,

- Have a power or authority over some body or something
- Regulate something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment. (HorNICy-1992)

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

"Control" is an ambiguous word; it mans the ability to direct oneself and one's work. It can also mean domination of one person by another (management). Objectives are the basis on 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 objectives is that it enables us to substitute management by domination"(Drucker P.F. -1954)

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time of commitment. Effective control requires feed forward. In other words, it is assumed that objectives, plans, polices and standard have been developed and communicated to those manager who have the related performance responsibilities. Therefore, control must necessarily rest upon the concept of feedback, which requires performances measurements and triggers corrective action designed to ensure attainment of the objectives. When plans become operational control must be exercised to measure progress. In some cases, control also results in the revisions of prior plans and goals or in the formulation new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organizations structure.

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

1. Compare actual performance for the period with the planned goals and Standards,
2. Prepare a performance report that shows actual results, planned results and Any differences between the two (i.e. Variation above or below planned Results),
3. Analyze the variations and the related operations to determine the underlying Causes of the variations,
4. Develop alternative courses of action to correct any deficiencies and learn from the successes,
5. Make a choice (corrective action) from the set of alternatives and implement sit.
6. Follow up to appraise the effectiveness of the correction. Follow with feed forward 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 facts shown in a performance report cannot be changed; however tin historical measurement may lead to improved control in the future. The significant concept here is that objectives policies and standards fulfill two basic requirements 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 effectiveness of control after the action has taken place. Moreover, feedback is instrumental in re-planning.2.5 Introduction to Strategic Planning

Executive managers of banks are often so preoccupied with immediate issues that they lose sight of their ultimate objectives. That's why a business review or preparation of a strategic plan is a virtual necessity. This may not be a recipe for success, but without it banking service is much more likely to fail. A sound plan should:
. Serve as a framework for decisions or for securing support/approval.
. Provide a basis for more detailed planning.
. Explain the business to others in order to inform, motivate & involve.
. Assist benchmarking & performance monitoring.

. Stimulate change and become building block for next plan.
A strategic plan should not be confused with a business plan. The former is likely to be a (very)short document whereas a business plan is usually a much more substantial and detailed document. A strategic plan can provide the foundation and framework for a business plan. A strategic plan is not the same thing as an operational plan. The former should be visionary, conceptual and directional in contrast to an operational plan which is likely to be shorter term, tactical, focused, implement able and measurable. As an example, compare the process of planning a vacation (where, when, duration, budget, who goes, how travel are all strategic issues)with the final preparations (tasks, deadlines, funding, weather, packing, transport and so on are all operational matters).

2.11 Basic Approach to Strategic Planning

A critical review of past performance by the management of a banks and the preparation of a plan beyond normal budgetary horizons require a certain attitude of mind and predisposition. Some essential points which should to be observed during the review and planning process include the following:

. Relate to the medium term i.e. 2/4 years
. Be undertaken by Executive managers/directors
. Focus on matters of strategic importance
. Be separated from day-to-day work
. Be realistic, detached and critical
. Distinguish between cause and effect
. Be reviewed periodically
. Be written down.

As the precursor to developing a strategic plan, it is desirable to clearly identify the current status, objectives and strategies of an existing business or the latest thinking in respect of a new venture. Correctly defined, these can be used as the basis for a critical examination to probe existing or perceived Strengths, Weaknesses, Threats and Opportunities. This then leads to strategy development covering the following issues discussed in more detail below:

-Vision -Mission

-Values -Objectives

-Strategies -Goals
-Programs

The preparation of a strategic plan is a multi-step process covering vision, mission, objectives, values, strategies, goals and programs. These are discussed below.

2.11.1.1 The Vision

The first step is to develop a realistic Vision for the strategic planning. This should be presented as a pen picture of the banking sector in three or more year's time in terms of its likely physical appearance, size, activities etc. Answer the question: "if someone from Mars visited the business, what would they see (or sense)?" Consider its future products, markets, customers, processes, location, staffing etc.

2.11.1.2 The Mission

The nature of a strategic planning is often expressed in terms of its Mission which indicates the purposes of the business, for example, "to design, develop, manufacture and market specific product lines for sale on the basis of certain features to meet the identified needs of specified customer groups ". A statement along these lines indicates what the strategic planning is about and is infinitely clearer than saying, for instance, "we're in electronics" or worse still, "we are in business to make money" (assuming that the business is not a mint!). Also, some people confuse mission statements with value statements - the former should be very hard-nosed while the latter can deal with 'softer' issues surrounding the business.

2.11.1.3The Values

The next element is to address the Values governing the operation of the strategic planning and its conduct or relationships with society at large, customers, suppliers, employees, local community and other stakeholders.

2.11.1.4The Objectives

The third key element is to explicitly state the strategic plan's Objectives in terms of the results it needs/wants to achieve in the medium/long term. Aside from presumably indicating a necessity to achieve regular profits (expressed as return on shareholders' funds), objectives should relate to the expectations and requirements of all the major stakeholders, including employees, and should reflect the underlying reasons for running the business. These objectives could cover growth, profitability, technology, offerings and markets.

2.11.1.5The Strategies

Next are the Strategies - the rules and guidelines by which the mission, objectives etc. may be achieved. They can cover the business as a whole including such matters as diversification, organic growth, or acquisition plans, or they can relate to primary matters in key functional areas, for example:

- The company's internal cash flow will fund all future growth.
- New products will progressively replace existing ones over the next 3 years.

While making strategic planning & managerial decisions SWOTs to help identify possible strategies by building on strengths, resolving weaknesses, exploiting opportunities and avoiding threats.

2.11.1.6 The Goals

These are specific interim or ultimate time-based measurements to be achieved by implementing strategies in pursuit of the company's objectives, for example, to achieve net profit of 600m in three years time. Goals should be quantifiable, consistent, realistic and achievable. They can relate to factors like market (sizes and shares), products, finances, profitability, utilization, and efficiency.

2.11.1.7 The Programs

The final elements are the Programs which set out the implementation plans for the key strategies. These should cover resources, objectives, time-scales, deadlines, budgets and performance targets.

It goes without saying that the mission, objectives, values, strategies and goals must be inter-linked and consistent with each other. This is much easier said than done because many businesses, which are set up with the clear objective of making their owners wealthy often, lack strategies, realistic goals or concise missions. Statements on vision, mission, objectives, values, strategies and goals are not just elements of future planning. They also provide benchmarks for a historic review. Most managers will find it exceedingly difficult to develop a future strategy for managerial decisions without knowing its current strategies and measuring their success to date.

2.11.2 Assess Current Position

The starting point must be to determine a company's existing (implicit or explicit) vision, mission, objectives and strategies. Then judge these against actual performance along the following lines:

- Is the current vision being realized?
- How has the company's mission and objectives changed over the past say, three years? Why have the changes occurred or why have no changes occurred? Identify primary reasons and categorize them as either internal or external.
- Describe the actual strategies followed over the past few years in respect of products/services, operations, finance, marketing, technology, management etc.
- Critically examine each strategy statement by reference to activities and actions in key functional areas covering such matters as:

    o How has the company been managed?
    o How has the company been funded?
    o How has the company sought to increase net profit?
    o How have net worth moved?

Take each element and quantify by reference to actual performance. Ask of each "why not", "why only"? Or "why so"? And locate the reasons for differences between the actual and desired performance. A useful technique for exploring performance shortfalls is to review the banks' financial return and to drill down through the components of this return to locate and assess the key determinants of performance. For example, return on shareholders' funds is a key measure of profitability, which can be expressed as:

$$\frac{\textit{Net- profit}}{\textit{Sales}} \times \frac{\textit{Sales}}{\textit{Shareholders'- fund}}$$

Take each item in this formula, explore its contents and derive performance measures or ratios. For example:

Sales break down into sales values, units, prices, discounts, commissions, bad debts and so on.
Net income is derived by deducting costs (materials, labor, power etc.), expenses, interest and depreciation from sales revenue.

Shareholders' funds are based on the value of fixed assets, current assets, current liabilities, debt etc. When reviewing a strategic planning it is essential to cut through the symptoms of problems and reach the underlying causes. Questions, which can assist in revealing the real causes, include the following:

•"What stopped the business from?"
•"What caused the cause of?"
•"Why didn't the business achieve a 25% return?"

2.11.2.1 Strengths & Weaknesses

Strengths and weaknesses are essentially internal to the organization and relate to matters concerning resources, programs and organization in key areas. These include:
• Management - systems - expertise - resources;
• Operations - efficiency - capacity - processes;
• Products - services - quality - pricing - features - range - competitiveness;
• Finances - resources - performance;
• R&D - effort - direction - resources;
• Costs – productivity
• Systems - organization - structures.

If a startup is being planned, the strengths and weaknesses are related mainly to the promoter(s) - their experience, expertise and management abilities - rather than to the project.

2.11.2.2Threats & Opportunities

The external threats and opportunities confronting a bank can exist or develop in the following areas:

• The banks own industry where structural changes may be occurring (Size and segmentation; growth patterns and maturity; established patterns and relationships, emergence/contraction of niches; international dimensions; relative attractiveness of segments) The marketplace which may be altering due to economic or social factors (Customers; economic factors, social/demographic issues; political & environmental factors) Competition which may be creating new threats or opportunities (Identities, performances, market shares, likely plans, aggressiveness, strengths & weaknesses)

• New technologies, which may be, causing fundamental changes in products, processes, etc. (Substitute products, alternative solutions, cost savings etc.)

Against an uncertain and shifting background, the objective must be to identify and prioritize the key SWOTs in a one-handed manner

2.11.3 Develop Banking Strategies

Once the SWOT review is complete, the future strategy may be readily apparent or, as is more likely the case, a series of strategies or combinations of tactics will suggest themselves. Executive managers have to use the SWOTs to help identify possible strategies as follows:

- Build on strengths
- Resolve weaknesses
- Exploit opportunities
- Avoid threats

The resulting strategies can then be filtered and molded to form the basis of a realistic strategic Plan

2.11.4 Simple & Short Strategic Plans

Notwithstanding that "battles are often lost for want of nails", a bank rarely succeeds or fails for minor or trivial reasons. The causes are usually substantial and are often self-evident, at least to an outsider. For example, the bank was completely over-borrowed; management was weak; a major new product opportunity was identified; a major competitor went bust or expanded; the bank never reinvested.

It should be possible in the course of a few pages to set down the main elements of a bank's vision, mission, values, objectives, goals, and strategies, SWOTs etc. The compilation of a short report along these lines is likely to prove much more difficult than a lengthy dissertation which mixes up details and principles, and confuses the broad picture. Executive managers also can take the help of independent advisers or non-executive directors can play a valuable role in this process because they can readily adopt the role of devil's advocate and also bring external knowledge and expertise to bear.

2.11.5 Using the Strategic Planning Worksheet

When using the Strategic Planning Worksheet below, note the following suggestions:

1. Relate the planning exercise to a specific bank or, if diversified, to individual strategic bank units.

2. Ideally the worksheet should be compiled by a multi-discipline management group, or separately by 2/3 groups and then discussed in plenary session if large managerial decisions are involved.
3. If working on your own, complete the worksheet and then return to it a few times over the following few days and critically review what you wrote - why, why, why etc. and ask yourself whether you have seen the "wood for trees".
4. A completed worksheet should be edited down into a 1-2 page document and reviewed by the group(s). The final form of the document need not follow the worksheet's layout provided all the matters are covered.
5. All plans, ideas, issues etc. should be internally consistent and realistic.
6. You need a very good understanding of the market, competitors etc. in order to make a clear assessment of your SWOTs. If you haven't got this insight, suspend work on your strategic plan until you have done this basic research.
7. Allow enough time as you may find it much more difficult to write a short plan than a long one!!!!

2.11.6 Avoid Business Failure

This paper is most relevant to entrepreneurs or management teams that have a clear vision and mission for their business and are in the process of developing the primary strategies to be followed. It is closely linked to other papers in this series, most notably developing a strategic plan, which offers a framework for a strategic plan and Getting New Business Ideas. The development of a suite of strategies is an iterative process and involves circular thinking on the basis that optimal strategies will evolve gradually and be very interdependent. Accordingly, the best way to utilize this paper is to review it in its entirety and then use it as a checklist and basis for brainstorming and systematic analysis.

A venture is most prone to failure during its first three or so years of operation - the so-called 'valley of death'. A key to getting through these early years is to avoid the obvious mistakes. Generally speaking, businesses fail for significant and substantial reasons, which are often very evident to outsiders. Insiders often fail to see them because of their closeness, determination and so on.

Basic reasons for failure include the following:

Finance	Net profit	Management	Offerings	Operations
Underestimating start-up costs (for operations & capital expenditure).	Misjudging the size or growth of the overall market.	Lack of relevant sectorial experience.	Inability to supply profitably to required price.	Under-investment in equipment etc.

Insufficient funds or access to top-up finance.	Overoptimistic estimates of market shares.	Insufficient functional breadth.	Problems with maintaining quality standards.	Excessive overheads(relative to scale of operations).
Wrong mix of funds (e.g. too much debt and gearing too high).	Delays in securing or developing customer oriented products/services.	Unresolved differences of opinion.	Restricted range of offerings.	High operational costs and/or low productivity.
Over reliance on trade credit (receivables).	Underestimating the strength of competitors.	Unreal expectations.	Lack of innovation(me-too offerings).	Poor capacity utilization.
Mistaking profit for cash flow	Misreading customer requirements.	No formal or clear structures.	Problems sourcing supplies.	Inadequate physical distribution.
Overoptimistic projections or overtrading.	Lack of promotion & customer awareness.	Ineffective financial& managerial control systems.	Offerings out of line with customer needs.	Inappropriate business location.
Unable to withstand interest rate increases.	Inability to handle an economic slowdown.			

Clearly, there are very many other reasons as to why businesses fail. The key point is that causes are usually very apparent (especially with hindsight) and the trick is to anticipate them by executing appropriate strategies at the outset. Three examples:

- Use market research to confirm demand and assess suitability of proposed offerings.
- Create a management team to offset any gaps in experience or expertise.
- Raise equity to reduce exposure to interest rate changes, reduce gearing etc.

Given that reasons for failure are often both simple and clear, it should (in theory) be possible to reduce the possibility of failure through prior experience, forethought and effective planning.

2.11.7 Characteristics of Successful Businesses

A successful emerging growth business is likely to display many of the following characteristics:

1. Sensibly financed (with prudent mix of equity and debt).
2. Strong cash position (with access to follow-on or contingency funds).
3. Offers above-average profitability (in terms of return on capital invested).
4. Aims for rapid growth in revenues (with profits lagging but in prospect).
5. Targets expanding, or otherwise attractive, market segments.
6. Devotes substantial resources to innovation (R&D, offerings or market).
7. Competes on non-price issues (e.g. quality, service, functionality).
8. Very close to customers and responsive to their needs.
9. Seeks specialist/leadership image with superior offerings.
10. Well managed with high-grade staff & good people-management.

2.11.8 Basic Strategic Planning Approaches

The primary strategic options for managerial include the following:
Grow fast (and ahead of most competitors)

Grow in line with industry

Defend existing status (assumes a moderately strong starting position)

Catch up (with leaders & then grow with or ahead of them)

Turn around (from being an under performer)

Hang in (go with the flow but don't expend much effort)

Harvest (milk the opportunity with a view to withdrawal)

The preferred option is likely to be very influenced by the dynamics and prospects of the sector in which the business operates. For example, if the sector is under serious long-term threat then the only realistic options might be to hang in or harvest.

2.11.9 Creating Strategic Combinations

This Section presents several different combinations of strategies, which could be used to help develop a range of strategic options. These can be strung together to form explicit strategic statements of intent. The purpose of this section is not to encourage a form of planning by words but to simply expose the range of possibilities that might be considered when formulating explicit strategies. These can be applied equally to start-ups and strategies

from scratch without the benefits of any market position, momentum or pre- existing strategies.
Three software packages could be extremely useful in helping to formulate and assess strategic proposals. Quick Insight is especially suitable for smaller businesses and Business Insight is aimed at larger businesses. Both packages are expert systems incorporating the know-how of leading marketing and strategic planners. They evaluate proposals and allow users drill down to find the basis for evaluations and to compare their strategies with those of competitors.

Any selected suite of strategies must be integrated and internally consistent and in-line with the business's broader vision, mission and objectives. There is little point in a business claiming to be technologically advanced if its R&D spend is sub-critical, or aspiring to become a leading brand if it has neither products, nor funds nor distribution to ensure this could happen.

Primary product and market combinations include:

Investment possibilities include the following:

Improve market share, enhance brand, extend distribution

Increase capacity or efficiency or reduce costs

Extend product ranges and/or served market

Stabilize/strengthen financial position

Innovate and create new offering

Increase skills or productivity

Scale back or close down

2.11.13 Compiling Strategic Statements

Strategic statements can be defined as broad indicators of the direction(s) in which a business should be driven in order to fulfill its vision/mission while taking realistic account of its resources, constraints and opportunities.

They also serve as the link between the business's objective and actions plans and should result in a series of integrated sub-strategies and action programs with goals, budgets, and timetables. These can be most effective when linked to specific functional areas.

For example:

Industry	Operation
Marketplace	Financing/funding
Technology	Products
Offerings	Management

Marketing	Organization

2.12 Budgetary Control

2.12.1 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 in 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 coordinated plan, expressed in financial terms for the operations and 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.

2.12.2 Budgeting: As a device of profit plan

Budgeting is forward planning. It severs 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 function." (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 level 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

2.12.3 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 tin 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 at 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, an 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 or 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 curate and adequate.

G. Support of Top Management

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

H. Good Reporting 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, if an organization is needed to make their staff member feel too much involved in the budgeting system. To meet this end motivational approach towards budgeting should be followed:

2.12.4 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.

- Managerial involvement and commitment
- Organizational adaptation
- Responsibility accounting
- Full communication
- Realistic expectations
- Timeliness
- Flexible application
- Zero base budgeting
- Activity costing
- Behavioral view point

- Management control using PPC
- Follow up
- 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.

2.12.5 Managerial involvement and commercial

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

- Understand the nature and characteristics of profit planning and control.
- Be convinced that this particular approach to manage is preferable for their situation.
- Be willing to devote the effort required to make it operative.
- Support the program in all its ramifications.
- 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.

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

2.12.7 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 & measurement of actual results against objectives goals and plans by an account. Therefore" PPC requires responsibility accounting system.

2.12.8 Full Communication

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

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

2.12.9 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 sale." 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.

2.12.10 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)

2.12.11 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 and 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)

2.12.12 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 next year the same way and the same thing you would do it you weren't concerned about constraint and total justification." (Welseh 1999)

2.12.13 Activity Casting

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

2.12.14 Management Control Using PPC

"The primary purpose of control is to ensure attainment of the objectives, goals and standard of the enterprises. Control has many facets such as direct observation, oral express, policy and procedures, reports of actual results and performance reports. PPC focuses performance reporting and evaluation of performance to determine the causes of both high low performance. The essential characteristics of a PPC performance reports are follows." (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.

2.12.15 Behavioral View Point

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

2.12.16 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, there by living sufficient managerial time for overall policy and planning considerations. It is the 'out of line' that need immediate managerial attention to determine causes and to take corrective action. The items that are not out of line need not utilize extensive management time, however, they should trigger "rewards" in appropriate ways. To implement the exception principle, techniques, procedures must be adopted to call the manager attention to the out of control' items Performance" reports because they include a comparison of actual results with plans by areas 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)

2.12.17 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 provides for a transfer of knowledge to similar operation and
3. To provide a basis for better planning and control in the future.(Welsch-l999)

2.13 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 variety of approaches techniques and sequential steps."(Welsch-1999). These steps are out lined in this study in the following manner.

2.13.1 Identification and Evaluation of External Variables

The variable identification phase of the PPC process focuses on (1) identifying <n (2) evaluating the effects of the external variables. Management planning must foci 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 tin different relevancy according to the market nature. For the enterprises purpose 11 external relevant variables is, 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 particular significant phase of this analysis includes an evaluation of the present strength; v weakness of the enterprises. The comprehensive PPC approach is based on to expectation that these significant aspects of operations will be critically analyzed and evaluated periodically and in an orderly manner.(Welsch-l999)

2.13.2 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 (he mission, vision and ethical character of the enterprise. Its purpose is to provide enterprise identify 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.

2.13.3 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 upcoming budget year. Executive management should exercise leadership in this planning phase so that there will be a realistic and clearly articulated framework within which operations will be conducted toward common goals.

2.13.4 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 lop 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 alternatives, 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.

2.13.5 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.

2.13.6 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 a 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 upcoming strategies and tactical profit plans.

2.13.7 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 forma! 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 and format requirement essential for aggregation of the plans of the responsibility centers, into the overall profit plans. All of this activity must be coordinated among the centers in conformity with the organization structure.

When the two profit plans for the overall enterprises are completed, 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 for mally approved by the top executive and distributed to the appropriate managers.

2.13.8 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 tin 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 effectives and supervisor will have a clear understanding of their responsibilities and the expected level of performance.

2.13.9 Use of periodic performance reports

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

2.13.10 Follow up

It is an important part of control. Because performance reports are based on assigns 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.

The usefulness of comprehensive PPC may offer more benefits, which may be, summarize 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 in stills 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' art-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 cloud of uncertainty that exists in many 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 self 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 or lack of progress toward the objectives of the enterprise.
18. It forces reorganization and corrective action (including rewards)
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 alt kinds of behavioral problems.
7. It places the management in a straitjacket.
8. It adds a level of complexity that is not needed. 0. It is too costly asides from management lime.
9. The managers, supervisors and other employees hate budgets.

Whatever exists in the world has both advantages and disadvantages; and it is clear that we' use or apply it only in that case if it has many advantages. A 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.

2.14 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 needs of the business. Secondly, it is possible 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 workout 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 on estimates.
2. A'PPC program must be 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 a servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals in their various spheres of managerial assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possibly attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons." (Welsch-1999)

2.14 Development of Profit Plan

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

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

2.15.1 Resources Mobilization Plan or Budget

The planning for resources mobilization is the foundation for planning in a bank. The a other planning is based on it. The major and the sustainable resources of a bank is the customer deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilized by 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 cannot be invested into higher income yielding assets.

Further, interest- bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assets having longer tenure.

Therefore a proper mix of cost free and costly deposits corresponding to short term at longer term deposits are to be maintained by the bank in its deposit mix in order to minimum, its average cost of deposit at the same time having comfortable mix of income yielding assets. The cost of deposit of banks is also affected by the prevailing deposit interest rate • other banks in the market.

Budgeted targets for deposit mobilization during a particular year is set in advance with the view of optimizing the cost of deposit and the same are allocated to the different branches of the banks. Such allocations may be regarded as the tactical plan for deposit mobilization of the banks.

Banks resources other than customer deposits are the borrowing from other banks and the capital fund. Generally banks borrows from other banks to meet temporary requirement of liquidity which may occur sometimes during the course of banking operation caused due to unexpected withdrawals of deposit or deferment in loan repayments by the borrower by some reason or other. Such activities are managed from the Head Office with the least possible cost.

Among the capital fund, the equity capital is formed generally one time during opening of the bank. The Central Bank (NRB) may from time to time instruct the ban 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 20% 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 banks may choose 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 of 12% by the end of F/Y 2060/61. And a bank can take the size of exposure per borrower equivalent to maximum of 25% of its core capital in fund based, and 50% of that in non-fund based exposure. (NRB Directive)

2.15.2 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 basis of the nature of resources. This approach of deployment of resourced is called asset allocation approach. As MC Vaish writes in his book 'Money Banking Trade and Public Finance', "The fundamental criterion which must be followed 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 more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank." (Vaish, 1996)

Therefore the budgeted deposit mix is the major determining factor of the planning of assets portfolio.
A bank should make the planning for deployment of its resources in such a way that it ensures required liquidity as well optimize the yield on the fund of bank. Therefore banks resources deployment process involves following:

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

Funds 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 liabilities in this form as directed by the Central Bank from time to time. There is no yield in the fund deployed as liquid assets.

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

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

2.15.3 Planning for non funded business activities

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

2.15.4 Expenditure Planning

The expenses planning and controlling are very necessary for supporting the objectives and planned programs of the firm. An expense is related with profit. It is real fact, that the minimization of cost is maximization profit. 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. Personal Expenses
c. Office operating expenses
d. Expenses meeting the loss in exchange fluctuation
e. Non-operative expenses
f. Expenses for provision for loan loss
g. Expenses for provision for staff bonus
h. Expenses for provision of income tax

The interest expenses are incurred while paying for the deposit mobilized by the bank and include the expenses incurred for interest payment in all kinds of interest bearing deposit as per the agreed rate between the bank and the borrower. In the total expenses 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 (COD) mobilized by the bank. Lower the COD lower the interest expenses and thus higher the profitability. Therefore from profitability point of view banks plan their COD at 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 expenses for the deposit mobilized is called 'Spread' which is similar to the 'Contribution Margin' in sales of commodities by a manufacturing units.

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

2.15.5 Revenue Plan

Revenue of a bank is generate4d from the income yielding activities of the bank. Therefore while preparing the resources deployment plan and non-funded business activities plan, the banks make the estimation of the revenue in advance during the period for which the plan is developed. Revenues of a bank are generated in the following forms:

a. Interest Income
b. Commissions & 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 a bank. Therefore total income of a bank is categorized in two type viz. interest income and other income, while the later including other income items as listed above excepting the interest income.

The interest income is earned by charging interest on the fund deployed in interest earning assets such as loan and advances, overdrafts, investments in government securities, debentures etc. for this study, the income from bills discounting together as a single asset portfolio as LABP.

As the average rate of interest on LABP are comparatively higher than any other kind of income yielding assets, from the profitability point of view, higher asset allocation into LABP, higher will be the income.

The other income are generated from other activities of the bank such as issuance of L/C, Bank Guarantees, from remittance charges, cheque collection fee, locker charges, service charges, commitment charges, trading gain on foreign exchange, revaluation gain on foreign exchange, revaluation gain on foreign exchange reserve etc. The amount of other income of a bank greatly contributes in lowering the burden on the profitability. Higher the income earned by the bank,
lower will be the net burden amount thus better will be the profitability of the bank.

Income of 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 it optimizes its revenue.

2.16 Implementation of the Profit Plan

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2.16.1 Completion of the Annual Profit Plan.

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

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

2.16.2 Implementing the Profit Plan

"The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principle is to be effective, the various executive and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities, while taking in to 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 obtains an approved profit plan for his center and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects.

Performance must be measured and reported to management. Execution of the plan is assured although control procedure must be established so that accomplishment or failure is immediately known. On this basics action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential

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

2.16.3 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 & objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attend." Performance reports are one of the vital tools of management to exercise its controls function effectively.

Special external reports, reports to owner & internal reports are specially presented in the organization. Performance reports includes in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally actual results of reports are compared with goals and budget plans. Frequently they identify problem that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance

a. Features of performance reports

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

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

b. Aspects of performance reports

To extent to which the various managers use their performance reports depends on many factors, some behavioral and some technical. One important factor is the extent to which the performance reports serves the management and decisions making needs of the users.
Top management needs reports that give a complete and readily comprehensive summary of the overall aspects of operations and identification of major events. Middle management needs summary data as well as detailed data on day-to-day operation. Similarly lower level management needs reports that must be detailed, simple understandable and limited to items having a direct bearing on the supervisor's operational responsibilities.

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

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

2.17 Review of Previous Studies

Commercial banks came into the existence mainly with the objectives of collecting the idle funds mobilizing them into productive sector and causing on overall economic development. Any institution accepting deposits subjects to withdrawal on the demand and granting loans to the different sector, creation of credit is done by a bank. So far as the study concerned with the profit planning of commercial banks, there and processing industry, he has are various study have been available in the field of profit planning of commercial banks in Nepalese contest, some of them have analyzed in this section.

Ojha (1995) in his study on *Budgeting System in public Enterprises* in Nepal, a comparative study of Royal Drugs Limited and Herbs Production and processing industry, he has focused his basic objectives of the study to highlight the current practice of Budgeting system and its effectiveness. Mr.ojha has followed analytical as well as descriptive approach. The main objective of his study were to highlight the current practice of Budgeting system and its effectiveness in public enterprises arid to analyze the various functional budgets adopted in Nepalese public enterprises. Major finding and conclusions of this research work drawn by Mr. ojha are mentioned below:

- Royal Drug Limited (RDL) and Herbs production and processing company (HPPC) have not adequately considered controllable and non – controllable variable affecting the company. Furthermore strengths and weakness.

- RDL and HPPC both have no marketing specialists. So these enterprises are unable to develop the alternative marketing policy for sales expansion and foe new supply sources of raw materials. These enterprises are not operated on commercial basis.

The identified conclusions about different aspects of profit plan are presented in more than 50 points in his study including above major finding.

Karki (2000) has carried out a research in the topic ‘ A comparative study on Budgeting system of Rastriya Banizya Bank Ltd (RBB) and Himalayan bank Limited (HBL)’. The time period covered by this research was five years i.e. FY 1995/96 to 2000/01. The data and other necessary information were collected by using secondary as well as primary sources. In this research she has carried out some objective, findings and recommendations

Some objectives are :

- To determine comparative systematic budgeting capacity.
- To identify comparative revenue and cost efficiency.
- To know the comparative fund mobilization and lending policy.

Some findings are:

- Total revenue & total cost of RBB is higher than HBL but its profits are lower.
- Government seems less conscious in the present situation of RBB.
- In case of RBB, its deposit, total revenue, loan and advances are increase Every Year whereas the profits are negative or highly fluctuating, which is mainly due to High fluctuation in cost.
- No proper planning strategy seems to be developed although HBL is

operating at Profit but RBB is running with heavy cumulative loss.

- Interest coverage ratio of both banks is more than 1 except in the FY 1995-96 of RBB. It shows that interest paying capacity of both the banks is sound but the ratio of HBL is Higher than the ratio of RBB. It means HBL is stronger to pay interest liability.
- Interest spread is higher in RBB than in HBL.
- Return on paid of capital is always negative in RBB. Net profits also negative in RBB.

Sharma (2002) carried a study entitled, "Profit planning in commercial banks with a case study of Nepal Bangladesh Bank" for the purpose of partial fulfillment of the requirement for Master Degree in Business study. He has studied the profit planning in commercial banks with a case study of NB Bank. The main objective of this study is to trace out the situation of profit planning in Nepalese commercial banks. His major findings are:

- NB Banks lacks active and organized planning department to undertake innovative Products research and development works.
- Major concentration of resources mobilization of NB Bank is at deposit mobilization. In this respect they are incurring higher cost toward deposit mobilizations.
- Outstanding letter of credit liability of the bank is increasing every year however the growth is not consistent.
- Interest expense amount of the bank is the highest among other income items in the total revenue.
- Interest income amount of the bank is the highest among other income items in the total revenue.
- The average current ratio of the bank has found to be always higher than standard ratio 2:1, which shows satisfactory liquidity position of the bank.

Dhungana (2003) 'A Study of Joint Venture Banks Profitability', this study was conducted with main objectives of assessing the profitability of Joint Venture Bank in Nepal (during the period of five years from 1998/99 to 2003/04). Other objectives of the study were:

- To identify whether the profitability of Joint Venture Banks are optimal or not.
- To identify the pattern of profitability of Joint Venture Banks especially of Nepal investment Bank Limited.
- To suggest on the basis of findings and analysis.

The major findings, he had presented were as follows:

- Interest income of NIBL (Nepal Investment Bank Limited) was highest.
- SCB's commission and discount earning and foreign exchange income were higher than both of NIBL and NIC were.
- NIC's other operating income was appeared higher than other banks.

- NIBL had paid highest tax per share than other banks and SCB paid the same least.
- In average, NIC,NIBL, and SCB had highest personnel expenses, interest expenses on Deposits and other operating expenses respectively.

Sharma (2004) conducted a study entitled profit planning in commercial banks with a case study of NIC Bank. His major objective and findings are:

- To identify the efficiency of planning of NIC Bank Ltd.
- To determine the profitability of NIC Bank Ltd.
- To examine the fund mobilization and lending policy.
- To study the impact of now management techniques in making profit.

Findings are**:**

- NIC Bank lacks active and organized planning department to undertake innovative products research and development works.
- Major concentration of resources mobilization of NIC Bank is at deposit mobilization.
  In this respect they are incurring higher cost toward deposit mobilizations.
- Outstanding letter of credit liability of the bank is increasing every year however The growth is not consistent.
- Interest expense amount of the bank is the highest among other income items in the total revenue.
- Interest income amount of the bank is the highest among other income items in the total revenue.
- The average current ratio of the bank has found to be always higher than standard ratio2:1, which shows satisfactory liquidity position of the bank.

Lamsal (2005) has conducted a research in the topic ‘A comparative study of profit planning analysis of HBL and SCB.’ This research of Mr.Lamsal was of mainly centered in profit planning analysis of both the banks. The main objective of his research was to highlight the profitability position of the banks.

The data and other necessary information were collected by using secondary data as well as primary sources. In this research, he has pointed various findings and recommendations. Some remarkable findings and recommendation are as follows:

- Profitability Position of SCB is comparatively better than the same of HBL. So HBL is recommended to utilize its resources more effectively for generating more profit margin.

- Both banks should fulfill some social obligation by extending their resource to rural areas and promote development of poor and disadvantage groups. In order to do so, they should open branches in the remote areas with the objective of providing chapter banking services. The minimum amount to open account should be reduced.

- Report of HBL show that it is not involved in social activities. Therefore it is suggested that HBL should involve or contribute for such social programs to maintain favorable public image.

- HBL is recommended to raise its amount of shareholders fund for maintaining proper capital adequacy position where as SCB is recommended to maintain its present position.

CHPATER -THREE

3. 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 Industrial & Commercial Bank Limited 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 for a study that guides the collection and analysis of the data. As per Kerlinger (1986)(, Research Design is the paln, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. This study is an examination and evaluation of budget process in profit planning program of NIC Bank. 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 as analytical research designs have been adopted in this research. this is a case study Research.

3.3 Population & Sampling

Population is the entire aggregation of items from which samples can be drawn, “it is an estimate of the mean of the population” and Sampling is the process of choosing a representing sample from a population and collecting data from that sample in order to understand something about the population as a whole.

As this report aims at studying the profit planning aspect of a commercial bank taking the case study of a single bank i.e. NIC Bank, 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 based on secondary data. However, primary data and information have been obtained through informal discussions with the executives and other staff of the Bank. Secondary data have been collected from the annual published accounting and financial statement of NIC Bank. 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 (LABP), Customer deposits, total resources, total deployment, outstanding balance of letter of credit and Bank Guarantees, Interest Expenses, Other Expenses, Interest Income, Other Income etc of NIC Bank are the research variables of this study.

3.6 Tools and Techniques Employed

This study is confined to examine the profit planning of NIC Bank, 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 analyzed the presented data, which includes ratio analysis, percentage, regression analysis, Test of goodness of fit of the regression estimates (r2), 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 ration 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 the relationship among cost, volume, price and price and profit of the bank.

3.6.2 Research Gap

Most of the past research studies about profit planning system are basically related to profit planning system of manufacturing sectors or production oriented activities. The researcher could find only one study so far that has been related to profit planning system of a commercial bank i.e. in NB Bank. All the research have pointed out that there is no proper profit planning system and recommend for the effective implementation of profit planning system in the concerned institutions.

This study shall be a new study in this field as no study has been made so far in the profit planning of commercial banks i.e. case study on profit planning in Nepal industrial & Commercial Bank. This study has tried to indicate the implementation of profit planning system as well as to see how far the banks are practicing. This study has analyzed the financial position of NIC by applying the tools of ratio analysis and other mathematical and statistical tools. Finally it concludes the various findings of research and recommendation to the NIC.

3.6.3 Statistical and Mathematical Tools

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

1. **Arithmetic Mean average**

   The central values that represent the characteristics of the whole distribution Or the values around which all items of the distribution tend to concentrate are called average. Arithmetic mean or arithmetic average is one of the important statistical measure of average. The arithmetic mean of a given set of observation is their sum divided by the number of observations.

$$\overline{X} = \frac{X}{n}$$

2. **Multiple Bar – diagrams and graphs**

   Diagram and graphs are visual aids which give a bird's eye of a set of numerical data which show the information in a way enable us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of most important from of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3. **Percentage**

   Percentage is one of the most useful tools for the comparison of two quantities or variable. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is know as a percentage and the numerator of this fraction is known as rate of percent.

4. **Coefficient of correlation of correlation (R)**

   Correlation analysis is the statistical tools use to describe to which one variable is linearly related to another. The coefficient of correlation measure the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Correlation can either be negative or positive. It always lies between +1 to -1. the degree or association between the two variables, say X and Y, and is defined by correlation coefficient (R)

$$R = \frac{xy}{\sqrt{x2\sqrt{y2}}}$$

Where,

$$X = X\text{-}\overline{X} \quad \text{and } Y = Y\text{-}\overline{Y}$$

5. Regression analysis

Regression is the statistical tools which is used to determine the statistical relationship between two (or more) variable and to make estimate (or prediction) of one variable on the basis of the other variable (s). In other words, regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of other variable.

6. Standard deviation (±)

The Standard deviation is the absolute measure of dispersion. It is define as the positive square root of the mean of the deviation taken from the arithmetic mean. The grater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite.

$$\pm = \sqrt{\frac{x\,\text{Z}\,\overline{x}}{n}\;{}^{2}}$$

7. Coefficient of Variation (C.V)

The relative measure of dispersion based on the standard deviation is known as the coefficient of variation. It is independent of unit. So, two distribution can bitterly be compared with the help of C.V. for their variability. Less the C.V. more will be the uniformity, consistency, stable and homogeneous etc. and vice versa.

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

CHAPTER-FOUR

4. PRESENTATION AND ANALSYSIS OF DATA

4.1. INTRODUCTION:

In this chapter, we analyze the corporate planning system and budgeting procedure in a commercial bank with the specific context of Nepal Industrial & Commercial Bank Limited. To accomplish these objectives, the various functional budgets analyze and related data are presented in systematic way in tabular forms and graphs charts. And data are analyzed using statistical tools such as mean, standard deviation coefficient of variance correlation of variance correlation of co- efficient and regression methods and budgetary tools such as ratio analysis, cost volume profit analysis.

4.2 Strategic Profit Plan of NIC Bank

The strategic profit plan of NIC Bank is reflected in its business budget. The business budget is a realm able estimation of business actives to be achieved by the bank within a particular fiscal year for which the budget is prepared. The business 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 expenditure involved is the net income. Therefore, the strategic profit plan of NIC Bank consists the following plans:

1. Plan for resources mobilization
2. Plan for deployment of the resources
3. Plan for non-funded business activities
4. Revenue plan
5. Expenditure plan

4.2.1 Resources Mobilization Plan of NIC Bank

Here, the term resources have been used for the fund required by the bank for its actives.
Banks mobilizes its resources from the following sources:

1. Deposit Accounts
2. Loans and Borrowing
3. Share capital

Among the above three sources the Deposit accounts/collection is the major source of resources mobilization, which is in fact, one of the most important activities of a commercial bank. Loans and borrowing are obtained from local banks, foreign banks, central banks and other financial institutions, generally for a short period of time.

The capital fund is raised from shareholder's equity. This is the net-worth of the bank commercial banks. Commercial bank's capital fund has been dividend into two categories viz. core capital and supplementary capital.

Following table shows the resources mobilization by the bank is the period by study.

Table 1: Status of Resource Mobilization of NIC Bank (“000”)

Fiscal Year	Deposits		Borrowings		Capital fund		Other liability		Total
	Amount	%	Amount	%	Amount	%	Amount	%	
2001/02	3,572,362	85.8	-	-	519,114	12.5	71,264	1.7	4,162,740
2002/03	3,165,312	84.8	-	-	526,096	14.1	39,889	1.1	3,731,297
2003/04	3,144,312	78.4	274,750	6.8	552,101	13.8	41,994	1.0	4,013,157
2004/05	5,146,483	87.3	60,018	1.0	620,398	10.5	70,248	1.2	5,897,147
2005/06	6,241,378	83.4	450,371	6.0	684,194	9.1	103,795	1.4	7,479,738
2006/07	8,765,951	87.0	457,705	4.5	766,462	7.6	86,390	0.9	10,076,508
2007/08	10,068,231	88.0	352,129	3.1	917,990	8.0	97,008	0.8	11,435,358
2008/09	13,084,689	88.5	335,000	3.2	135,532	11.0	25,665	1.3	13,580,886

(Source: NIC Annual Reports)

Above table indicates that major portion of resource mobilization of NIC bank occupied by deposits. The average portion of deposits, borrowings, capital fund and other liability to total resource mobilization for the eight years is 85.40%,3.08%,10.83% and 1.18% respectively.

4.2.1.1 Deposit Collection:

Customer Deposit is the most important source of resources mobilization of the bank. As per the data of F/Y 2008/09 the total deposit is 130,84 Million. Deposit is collected from various sectors such as the general public business entities, NGO's school's, Trust and other individuals and institutions, which quality to open an account in the bank.
Deposit is collected on customer's account, which is opened as per the bank policy. The customer's deposits are of two types.

1. **Interest free deposit accounts.**

a) Current Deposit A/C
b) Margin Deposit A/C
c) Other Deposit A/C

The status of interest free deposits of NIC bank can be shown in following table.

Table No: 2 Status of Interest Free Deposits of NIC Bank (in'000')

Fiscal Year	Current Deposits		Margin Deposits		Other Deposits		Total non interest Bearing Deposits
	Amount	%	Amount	%	Amount	%	
2001/02	247,984	80.6	59,695	19.4	-	-	307,679
2002/03	257,249	86.0	41,908	14.0	-	-	299,157
2003/04	235,837	78.3	65,297	21.7	-	-	301,134
2004/05	278,487	75.9	88,223	24.1	-	-	366,710
2005/06	233,161	78.6	63,430	21.4	-	-	296,591
2006/07	391,872	88.1	52,942	11.9	-	-	444,814
2007/08	510,201	86.2	81,608	13.8	-	-	591,809
2008/09	654,178	87.3	72,253	14.9	-	-	726,431

(Source: NIC Bank's Annual Reports)

From above table the significant portion of interest free deposits is occupied by current deposits at the average of 83% for the 8 years and remaining portion is occupied by margin deposits at the average of 17.65% for the 8 years.

2. Interest bearing deposit accounts.

a) Saving Deposit A/C
b) Call Deposit A/C
c) Fixed Deposit A/C

The status of interest bearing deposits of NIC bank can be shown in following table.

Table No: 3 Status of Interest Bearing Deposits of NIC Bank (in'000')

Fiscal Year	Saving Deposits		Fixed Deposits		Call Deposits		Total interest Bearing Deposits
	Amount	%	Amount	%	Amount	%	

2001/02	522,499	16.0	1,945,060	59.6	717,124	24.4	3,264,683
2002/03	576,192	20.1	1,347,087	47.0	942,876	32.9	2,866,155
2003/04	734,086	25.8	1,143,043	40.2	966,049	34.0	2,843,178
2004/05	1,280,476	26.8	2,086,057	43.6	1,413,240	29.6	4,779,773
2005/06	2,024,259	34.1	2,930,621	49.3	989,907	16.7	5,944,787
2006/07	2,797,421	33.6	4,064,501	48.8	1,459,215	17.5	8,321,137
2007/08	3,335,671	35.2	4,074,563	43.0	2,066,188	21.8	9,476,422
2008/09	3,667,897	36.8	5,875,951	45.2	2,814,407	22.6	12,358,255

(Source: NIC Bank's Annual Reports)

Above table shows that major portion of the interest bearing deposits is occupied by Fixed Deposits at the average of 47.09% for the last eight years and then saving deposits by 28.55% and call deposits by 24.94% at the average for the last eight years.

Following table shows the budgets amount of deposit collection and to the same achieved actually. Since budgeted figure for deposit collection from F/Y 2001/02 to F/Y 2004/05 could not be available, this study has assumed the actual as the budgeted amount

Table No:4 Status of Budgeted and Actual Deposits of NIC (In"000")

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2001/02	3,572,362	3,572,362	100
2002/03	3,165,312	3,165,312	100
2003/04	3,144,312	3,144,312	100
2004/05	5,146,483	5,146,483	100
2005/06	5,539,498	6,241,378	112.67
2006/07	8,656,392	8,765,951	101.27
2007/08	9,985,762	10,068,231	100.83
2008/09	10,000,000	13,084,689	130.85
2009/10	15,000,000		

(Source: NIC Budget Statements and Annual Reports)

The yearly comparative status of budgeted deposit and actual achievements are shown in the Scattered and Bar Diagram as below:

Diagram No 1: Bar Diagram showing budgeted & Actual Deposits

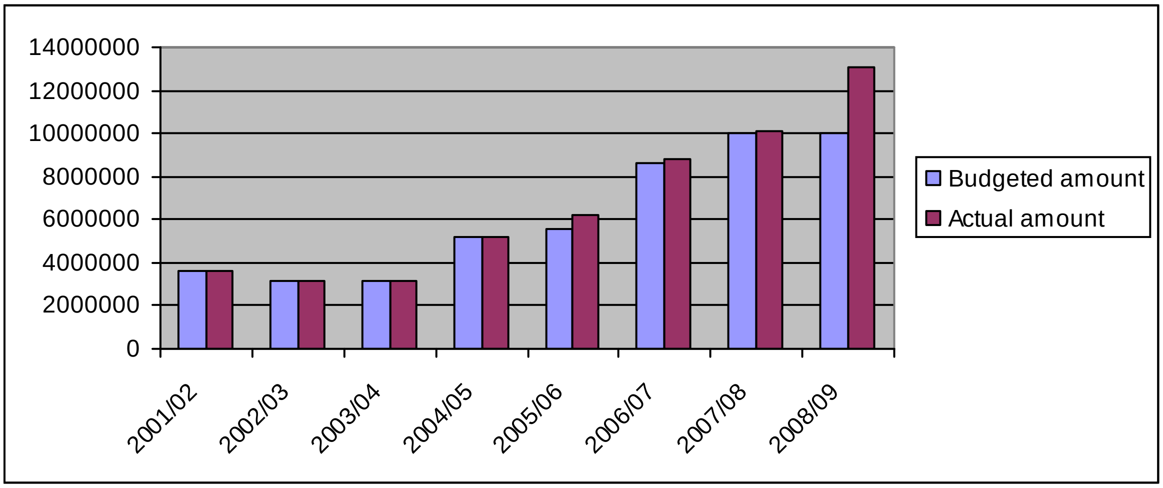
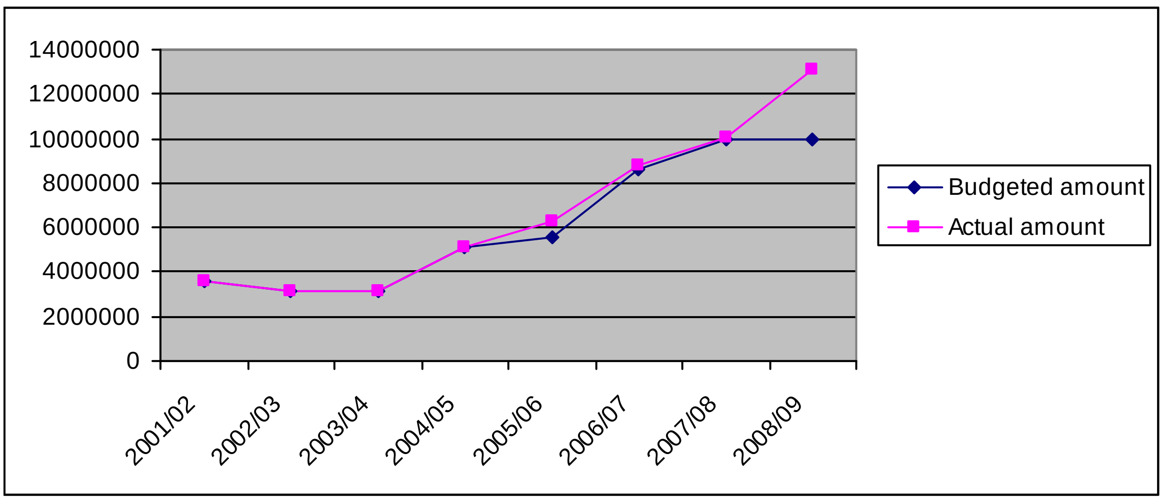


Diagram No2: Scatter Diagram showing Budgeted & Actual Deposits collection



Above table and diagram show that the deposit collection target has been meet for 100% or more than the budget amount for the some. This gives the picture of high level of achievement made by the bank toward 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, The above picture give the high level of performance of the bank in deposit collection sector.

We can find the relationship between the budgeted deposit collection with that of actual for different year by the help of statistical tools, that is arithmetic mean, NIC Bank deviation and coefficient of variation. The detail can calculation of these, statistical tools is shows in appendix 1. Now we are going to present summering the results from appendix 1. we have:

Table No:5 Summary of Budgeted & Actual Deposits and Achievements

Statistical tool's name	Budgeted deposits in Rs (X) in millions	Actual deposits in Rs (Y) in millions
Mean $\overline{X}$	6150.88	6648.25
Standard Deviation	2779.01	3425.95
C.V	45.18%	51.53%

The above table shows that actual deposits are little more variable than budgeted deposit, the coefficient of variations of deposits are of more variable nature. On the other hand budget deposits are more heterogeneous than actual deposits. A greater coefficient of variation is said to be more heterogeneous. Here NIC bank budgeted deposit is the nature of more variability than Actual deposits.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted deposit and actual deposits. There should be positive correlation between budgeted deposited and actual deposits. We can take the help of Karl Person's Coefficient of correlation between actual deposits and budgeted deposit. Karl Person's Coefficient of correlation is denoted (r). By calculation (r) we can examine whether is positive correlation between budgeted deposit and

Actual deposits or not. The actual deposits will change in the same direction as the budgeted deposits. For this purpose budgeted deposits is denoted by 'X' and assumed to be budgeted deposits and actual deposit is denoted by 'Y' is assumed to be dependent variable upon budgeted deposits. so that increase in budgeted is support to increase in actual achievement or vice versa, which meant means that that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) in tested with probable error PE. We have probable error PE = 0.02

The detail calculation of 'r' and probable error PE is presented in appendix 1. From that appendix we have calculated the value of 'r' is 0.996. The figure of 'r' shows that is positively perfect correlation between budgeted deposits and actual deposits.

From the calculation show in appendix 1. We have obtained Karl Person's coefficient of correlation (r) between the budgeted deposit (x) and actual deposit (y) i.e. r(x, y) being 0.996

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 $(r)^2 = 0.99$

Since r is greater than six times of probable error ($0.966>6\times0.02$), the value of 'r' is more significant so it is no doubtful that actual deposit will go no same direction that at budgeted.

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

Status of Actual (y) and Budgeted Deposits Regression Line:

$$\textbf{Y on x} = (Y- \bar{Y}) = r\,\frac{\pm Y}{\pm X}\,X\,(x-\bar{x})$$

where,

$\bar{Y} = 6648.25$

$\bar{X} = 6150.88$

$\pm y = 3425.95$

$\pm x = 2779.01$

$r = 0.996$

Regression Equation:

$$(y- 6648.25) = 0.996 \times \frac{3425.95}{2779.01}(x- 6150.88)$$

or, (y- 6648.25) = 1.227(x – 6150.88)

or, (y- 6648.25) = 1.227x – 7547.12

or, y = 1.227x – 7547.12 + 6648.25

or, y = 1.227x + 898.87

From the above equation, it is clear that actual deposits are in increasing trend by the help of this regression line equation. We ascertain the expected deposit achievement with given value of target deposit say (x) ascertain the expected deposits achievement for fiscal year 2009/10.

When X=15,000(million)

The expected deposits achievement

or, y = 1.227x + 898.87

=19,303.87(million)

If the relationship between deposits and actual deposits remains same as previous year than the actual deposits for the fiscal year 2009/10 will be Rs 19,303.87 (million) as stated by the above regression line equation

Following table shows the data of actual deposit mobilized by the bank as of the end of each fiscal year.

Table No: 6 Growth of deposits of NIC Bank (In'000')

Fiscal Year	Deposits	Growth in amount	Growth %
2001/02	3,572,362	0	0
2002/03	3,165,312	(407,050)	-11.39
2003/04	3,144,312	(21000)	-0.66
2004/05	5,146,483	2,002,171	63.68
2005/06	6,241,378	1,094,895	21.27
2006/07	8,765,951	2,524,573	40.45
2007/08	10,068,231	1,302,280	14.86
2008/09	13,084,689	3,016,458	30.00

(Source: NIC Annual Reports)

From the above table we can see that the deposits are increasing every year except in the year 2002/03 and 2003/04. NIC bank has highest growth of deposits in the year on 2004/05, in which the deposits is increased by 63.68% .

4.2.2 Resources Deployment Plan:

Development of the resources refers tot eh reasonable allocation of the resources of the 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 asset

i. Deployment for liquidity:

This is made for meeting expected withdrawal and other king of payments obligations of the bank. The resources for this purpose are kept in liquid form such as cash in vault, cash at bank etc. Generally there is no yield on this type of deployment excepting in the cash money placed in interest bearing account. The central bank of Nepal NRB at has instructed commercial bank to mandatory maintain approximately 5% of their total customer deposit liability as liquid form (cash in vault and at NRB) for this study, cash and bank balance is grouped in one dependent portfolio.

ii) Deployment for income generating activities:

Banks 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 Advances and Bills purchased (LABP)

b) Other investment.

LABP includes all loans, advances, overdrafts, bills purchased/discounted, provisioning and other types of loans available to the borrowers of the bank in return of which the bank earns interest income. Others investments include investment in shares, Treasury bill (TB), placement of fund on call make etc.

iii) Deployment for the assets:

This includes the deployment of the resources towards the non yielding assets such as fixed assets, other capital expenditure. Subject to write off in future course of time, income receivables, advance payments, sundry debtors etc. following tables shows the status of resources debtors by the bank over the period of study.

Table No 7 : Status of Resource Deployment of NIC Bank (in"000")

Fiscal Year	Cash & Bank Balance	LABP	Investment	Other Assets	Net Fixed Assets	Total
2001/02	539,451	2,585,419	537,078	88,267	62,002	3,812,217
2002/03	559,530	2,278,994	753,812	74,748	54,785	3,721,869
2003/04	318,058	2,419,523	1,153,262	66,562	50,214	4,007,619
2004/05	319,306	3,561,139	1,760,724	115,951	43,286	5,800,406
2005/06	100,550	4,711,712	1,572,902	68,527	59,496	6,513,187
2006/07	749,139	6,655,964	2,479,912	102,562	39,864	10,027,441
2007/08	599,759	8,941,398	1,599,481	220,345	153,679	11,514,662
2008/09	1,192,348	11,264,678	2,311,468	1150,663	194,500	16,113,657

(Source: NIC Annual Reports)

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

a) Deployment in LABP

b) Deployment in other than LABP (NLABP)

4.2.2.1. LABP budget of NIC Bank

Following table shows the budgeted amount of LABP and the same achieved actually. Since budgeted figure for LABP form F/Y 2001/02 to 2003/04 couldn't be available, this study has assumed the actual figure as the budgeted amount also.

Table No:8 Status of Budgeted & Actual LABP **(In "000")**

Fiscal Year	Budgeted LABP	Actual LABP	Achievement (%)
2001/02	2,585,419	2,585,419	100
2002/03	2,278,994	2,278,994	100
2003/04	2,419,523	2,419,523	100
2004/05	3,459,621	3,561,139	102.93
2005/06	4,652,312	4,711,712	101.28
2006/07	6,598,756	6,655964	100.87
2007/08	8,659,234	8,941,398	103.26
2008/09	9,500,000	11,264,678	118.58
2009/10	10,495,445		

(Source: NIC Bank's Budgeted and Annual Reports)

The statuses of budgeted and actual deployment in LABP on the various years of study are presents in the bar diagram and scatter diagram as below.

Bar Diagram No 3: Bar Diagram showing budgeted and Actual LABP

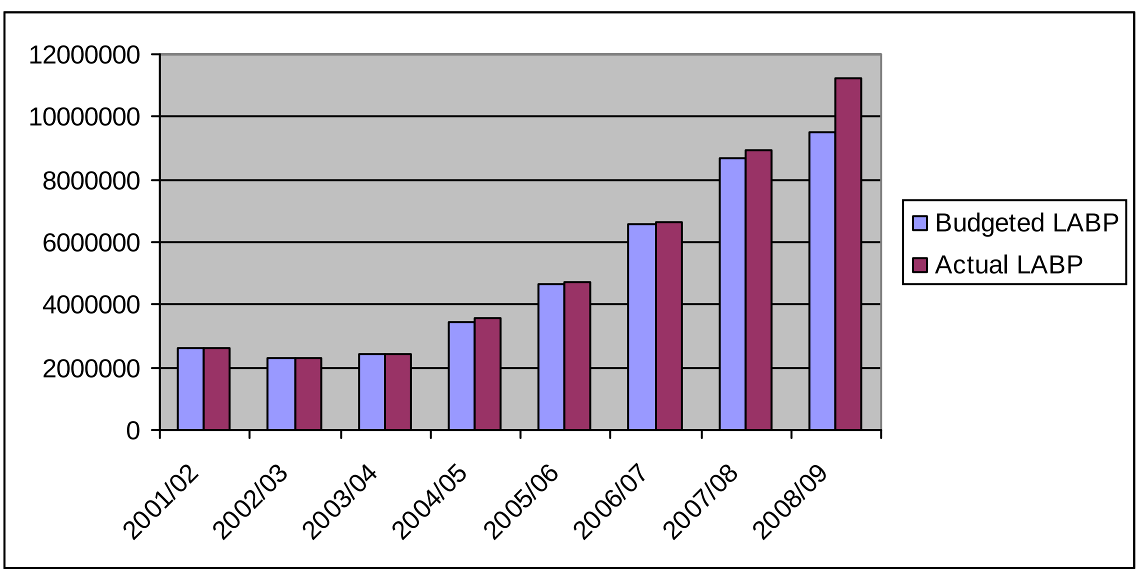
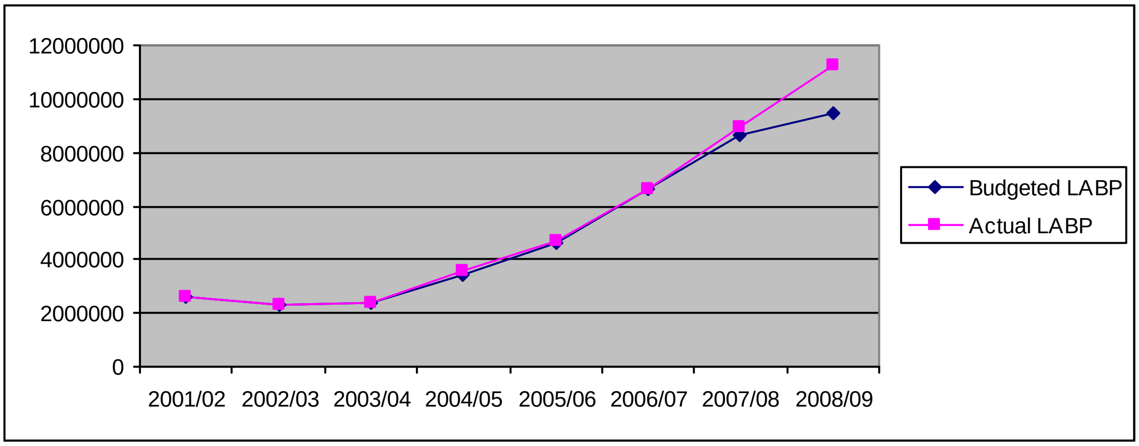


Diagram No 4: Scatter diagram of LABP Status



Above table and diagram show that the Actual LABP has been meet for 100% or more than the budget amount for the some. This gives the picture of high level of achievement made by the bank toward LABP. 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,

We can find the relationship between the budgeted LABP with that of actual for different year by the help of statistical tools that is arithmetic mean, NIC Bank deviation and coefficient of variation. The detailed calculations of the detailed calculation of the statistical tools are shown appendix 2. Now we are going to present summering the results from appendix 2. We have

Statistical tool's name	Budgeted LABP in Rs (X) in millions	Actual LABP in Rs (Y) in millions
Mean $\overline{X}$	5019.25	5302.25

Table No 9:Summary showing Budgeted & Actual LABP

Standard Deviation±	2705.95	3139.00
C.V	53.91%	59.20%

The above table shows that actual LABP are more variable than targeted LABP. Since the coefficient of variations of actual LAPB is greater than the targeted LABP. Actual LABP are or more variable nature. On the other hand budgeted LABP are more consistent more homogeneous than actual LABP. A greater coefficient of variation is said to be more heterogeneous. Here NIC Bank's Nepal Limited actual LABP is the nature of more variability the budgeted LABP.

We can use anothesr statistical tool correlation coefficient to analyze the relationship between budgeted LABP and actual LABP. There should be positive co-relationship between to financial correlation actual LABP and budgeted LABP. Karl Person's coefficient of correlation is denoted by (r). By calculating (r), we can examine whether is positive correlation between budgeted LABP and actual LABP or not. The actual LABP will change in the same direction and the budgeted LABP. For this purpose budgeted LABP is denoted by 'X' and assumed to be independent variable and actual 'Y' denotes LABP is assumed to be dependent variable upon budgeted LABP.

So that increase in budget supports to increase in actual achievement or vice versa, which meant that, should be positive correlation between budgeted figure and achievement figure Signification of correlation of (r) is tested with probable error (PE) we have probable error (PE) = 0.05

The detail calculation of 'r' and probable error (PE) is presented in appendix 2, that appendix we have calculated the value of r is 0.999, this figure of 'r' shows that is positively perfect coruscation between LABP and actual LABP. We have:

r = 0.999 and PE = 0.05

Since 'r' is higher than six times of the probable error (0.999<6 x 0.05),

The value of r is significant.

From the calculation in appendix 2, we have obtained the value of 'r' being 0.999

Now the coefficient of determination, which explains the change in Y variable i.e. budgeted LABP can be calculated as the square of 'r'

Therefore, coefficient of determination = $(r)^2 = (0.999)^2 = 0.998$

Another statistical tool, regression line can also be fitted to show the degree of relationship between budgeted LABP and actual LABP and to forecast the achievement with given target. For this purpose achievement figure have been supposed to be dependent 'Y' on target (x) or 'Y' on (x) is as follows:

Y on x = $(Y - \bar{Y}) = r \dfrac{\pm Y}{\pm X} X (x - \bar{x})$

we have,

$\bar{Y}$ = 5302.25

$\bar{X}$ = 5019.25

$\pm Y$ = 3139.00

$\pm X$ = 2705.95

r = 09998

Regression Line Y on X

(y- 5302.25) = 0.9998× $\dfrac{3139.00}{2705.95}$ (x – 5019.25)

or, (y- 5302.25) = 1.159(x-5019.25)

or, (y- 5302.25)= 1.159x – 5817.31

or, (y) = 1.159x – 5817.31 + 5302.25

or, y = 1.159x – 515.06

From the above equation, it is clear that the actual LABP are in increasing trend by the help of this regression equation. We ascertain the expected LABP's achievement with given value of target LABP say (x) for fiscal year 2009/2010
.

When x =10,495(million)

Then expected LABP achievement

Y = 1.159x – 515.06

= RS. 11,648.64

Following table shows the data of actual LABP deployment as of end of each fiscal year.

Table No 10: Growth of LABP **(in"000")**

Fiscal Year	LABP	Growth in amount	Growth in%
2001/02	2,585,419	-	-
2002/03	2,278,994	(306,425)	-11.85
2003/04	2,419,523	140,529	6.17
2004/05	3,561,139	1,114,616	47.18
2005/06	4,711,712	1,150,573	32.31
2006/07	6,655,964	1,944,252	41.26

2007/08	8,941,398	2,285,434	34.34
2008/09	11,264,678	2,323,280	25.98

(Source: NIC Bank annual Reports)

Above table shows that the LABP of NIC bank is increasing trend except on the year 2002/03, in which the bank has negative growth by 11.85% than the previous year.
The bank has the highest growth of 47.18% and 41.26% of LABP in the year 2004/05 and 2006/07 respectively.

4.2.2.2. Resources deployment in other portfolio than LABP (NLABP):

Deployment in other portfolio than LABP includes cash & bank, investment in fixed assets and other assets.

Following table shows the budgeted and actual figures of the resources deployed under this group over the period of study. For the initial few years of which the budgeted figures couldn't be available, the actual position has assumed to be budgeted figure also for the purpose of this study.

The comparative status of the resources deployment of other portfolio than LABP is shown by the scattered and bar diagram as below:

Table No 11: Status of Budgeted & Actual NLABP (in"000")

Fiscal Year	Budgeted NLABP	Actual NLABP	Achievement (%)
2001/02	1,226,798	1,226,798	100
2002/03	1,442,875	1,442,875	100
2003/04	1,588,096	1,588,096	100
2004/05	2,136,892	2,239,267	104.79
2005/06	2,569,845	1,801,475	70.10
2006/07	3,089,562	3,371,477	109.12
2007/08	3,356,245	2,573,264	76.67
2008/09	3,596,062	3,775,865	105.00

(Source: NIC Bank's budgeted and Annual Reports)

Above table shows the 100% or more achievement of target in deployment of the resources to other LABP for the study period. Except for F/Y 2005/06 & 2007/08 where the achievement is up to 70.10% and 76.67% respectively of the budgeted amount.

The bar and scatter diagram shows the picture of unsatisfactory achievement in the deployment in NLABP portfolio.

Diagram No 5: Bar Diagram Showing Budgeted & Actual NLABP

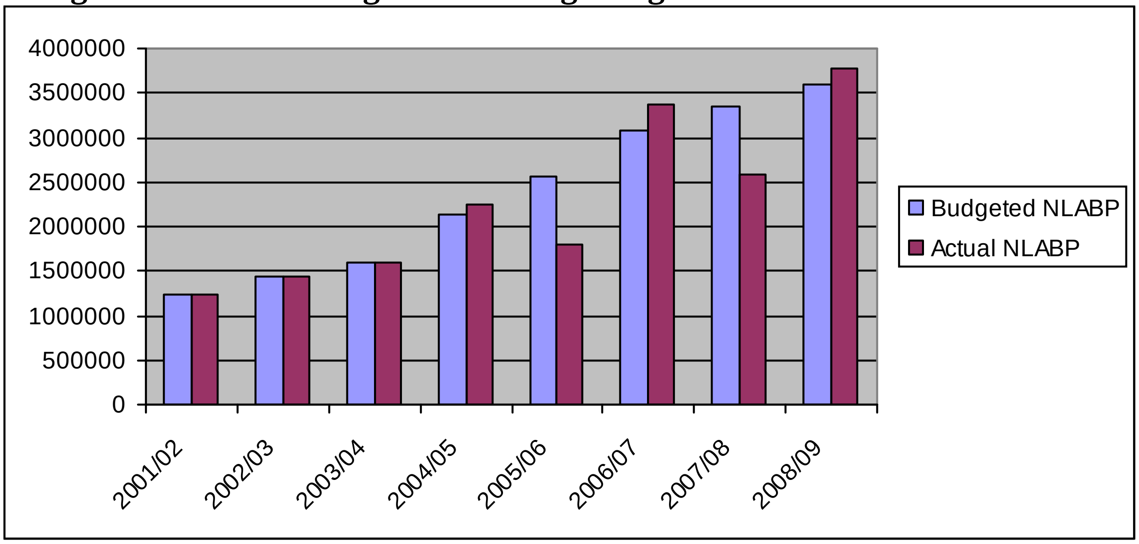
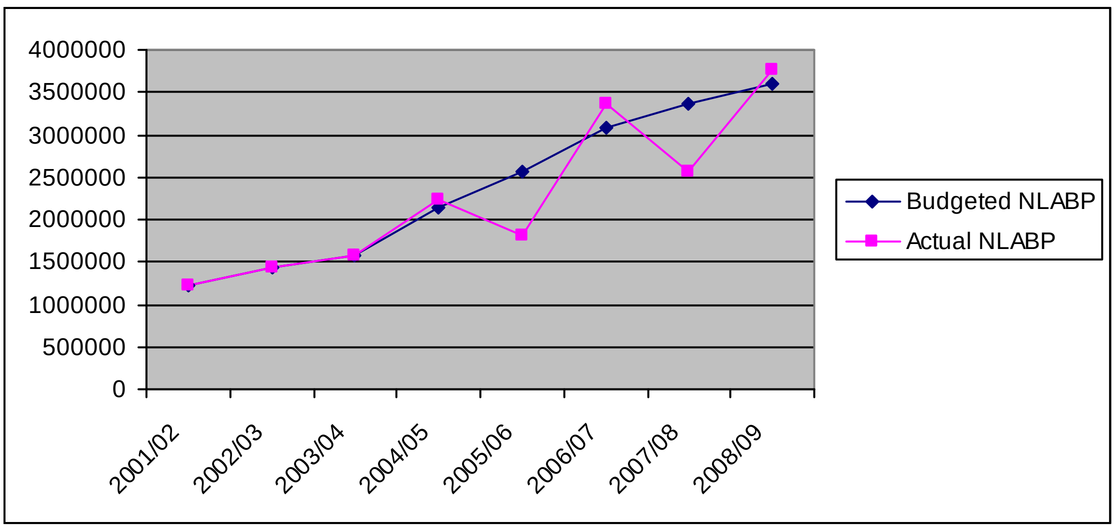


Diagram No 6:Scatte Diagram showing budgeted & Actual NLABP



4.2.3. Actual deposit collected vs. actual LABP status of NIC BANK.

As it is understood that the major sources of resources mobilization of NIC BANK is the customer deposit and similarly the major outlet for deployment is for loan and bills purchased (LABP), it is desirable to analyze the comparative status of the same for the study period.

Following tables shows the actual balance of customer deposit mobilization by the bank and actual position of deployment towards LABP and the ratio of LABP to deposit (CD Ratio) as of the year and of corresponding fiscal year

Table No12: Showing Deposits & Outstanding LABP (in'000')

Fiscal Year	Deposits	Actual Outstanding LABP	CD Ratio (%)
2001/02	3,572,362	2,585,419	72.37
2002/03	3,165,312	2,278,994	72.00
2003/04	3,144,312	2,419,523	76.95
2004/05	5,146,483	3,561,139	69.20
2005/06	6,241,378	4,711,712	75.49
2006/07	8,765,951	6,655,964	75.93
2007/08	10,068,231	8,941,398	88.81
2008/09	13,084,689	11,264,678	87.95

(Source: NIC annual Reports)

From above table it can be found that deposit and LABP is increasing. The average CD, Ratio over the period of last 8 years is 77.34%.

It is significant to analyze the relationship between deposits and outstanding LABP. In order to find out the variability, of actual deposit and actual outstanding LABP of different years. We have to calculate arithmetic mean, NIC Bank deviation, and coefficient of variation techniques and correlation of coefficient.

The detail calculations of these statistical tools are presented in appendix no.4. Now, summarizing the results from appendix.4, we have:

Statistical tool's name	Deposits in Rs (X) in millions	Actual LABP in Rs (Y) in millions
Mean $\overline{X}$	6648.25	5302.25
Standard Deviation ±	3425.95	3139.00
C.V	51.53%	59.20%

Table13: Summary showing Deposits & Actual LABP

The above results show that actual deposits are more variable than actual outstanding LABP. Hence the coefficient of variation of actual deposits is higher than that of actual outstanding LABP.

Another statistical tool, correlation of coefficient can be used to analyze the relationship between, actual outstanding deposits and actual outstanding LABP. There should be positive correlation between actual outstanding deposits and actual outstanding LABP. In other words the actual deposits increase as the actual LABP increase or vice versa.
To find out correlation between actual deposits and actual outstanding LABP, we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we can examine

whether there is positive correlation between actual deposits outstanding and actual LABP outstanding or not. For this purpose, actual deposit (x) is assumed to be independent variable and actual LABP (Y) is assumed to be dependent variable. So that increases in actual deposits will support to increase in LABP and vice versa.

After this significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is presented in appendix 3. From this appendix, we have to calculate value of 'r' and P.E. Respectively, 0.988 & 0.066.Since r > 6 P.E. (0.9.88>6 x 0.066), the value 'r' is significant; there is perfect correlation between actual deposits and actual LABP.

The data of actual deposits and actual LABP outstanding can also be presented in graphical form as below. Below graph shows that both the actual deposits & actual outstanding LABP are in increasing trend.

Diagram No 7: Bar Diagram Showing Deposits & Outstanding LABP

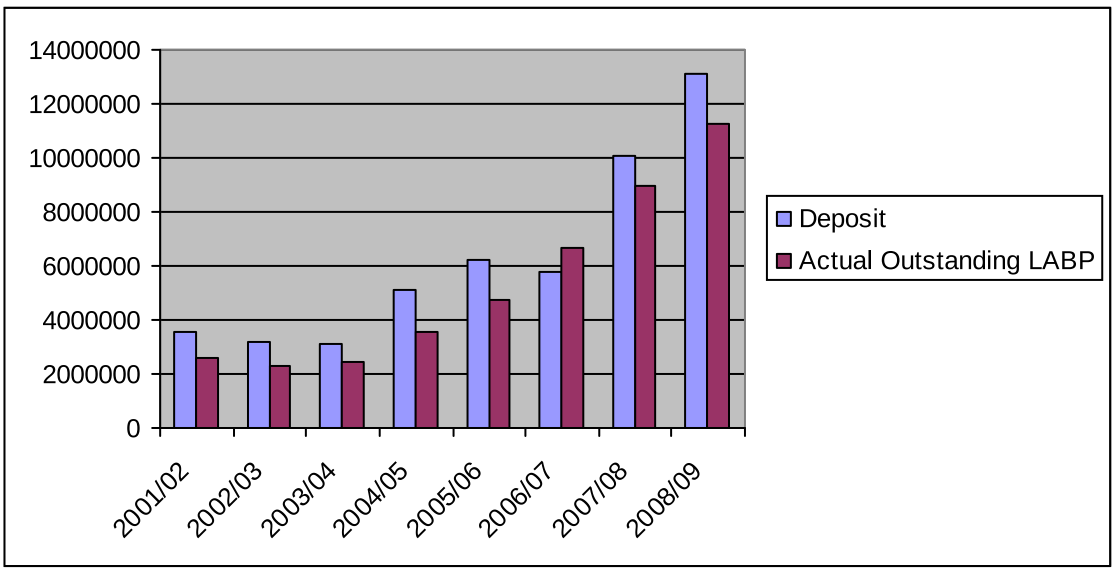
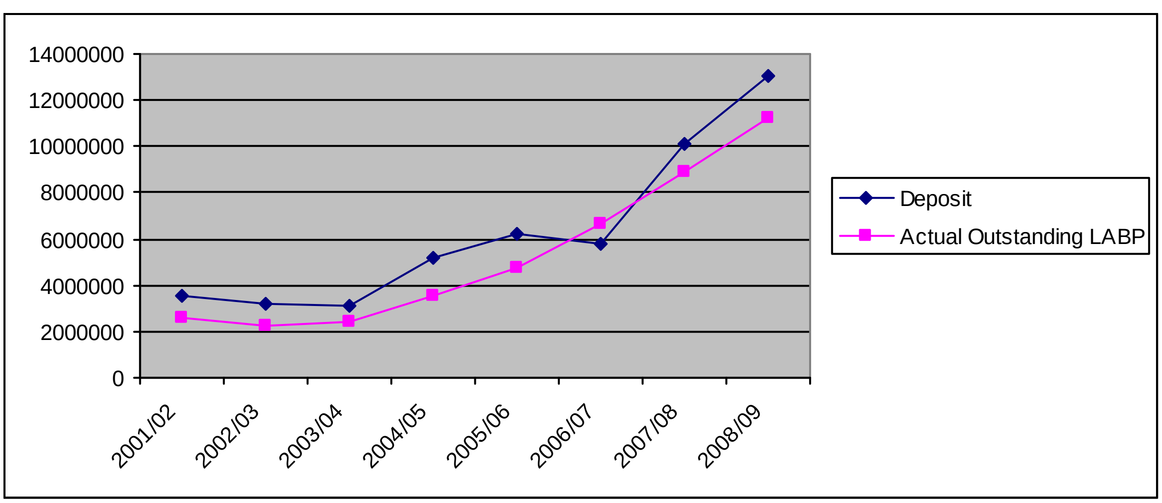


Diagram No 8: Scatter diagram showing deposits & outstanding LABP



4.2.3. Plan for non-funded business activities of NIC Bank.

Apart from the activities like advancing loans, overdraft, bills discounting and investments, where funds are involved for income generating, there are other business activities too preferment by the bank which do not involve fund yet are income generative. Such transactions are called non-funded business of the bank. In such transactions, the bank has to take contingents liabilities on behalf of their customers for a fee and/or commission, which are the income of 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.

(a) Letter of Credit Business

(b) Bank Guarantee Business

Since, these are the contingent liabilities, it appears down the line of balance sheet of the bank.

4.2.3.1. Letter of Credit:

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

Following table shows the letter of credit business statues of the bank as of the closing of the respective fiscal year and its growth over the period of this study.

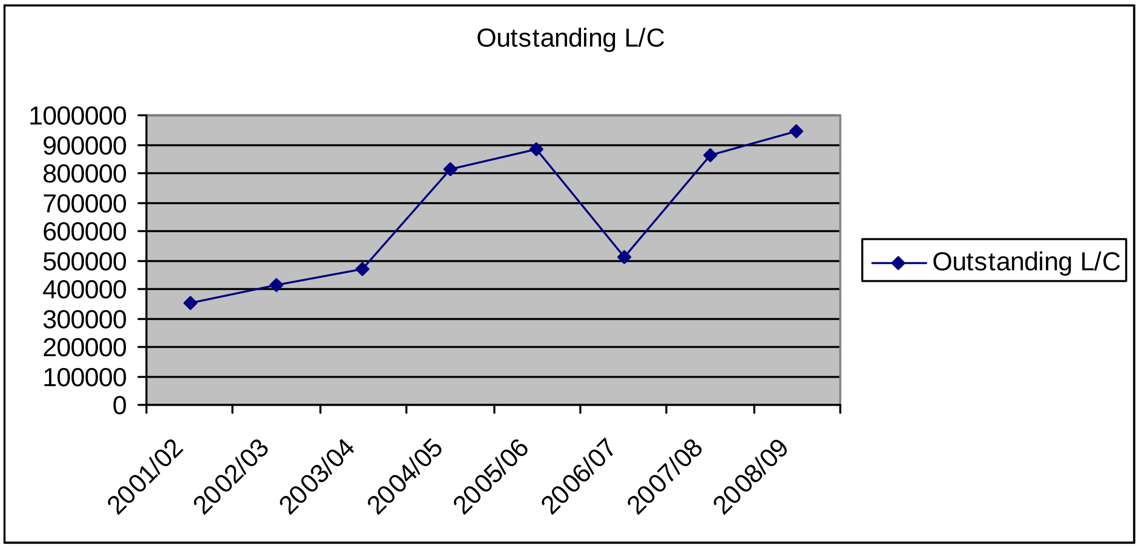
Table No 14: Growth of L/C Business **(in"000")**

Fiscal Year	OUTSTANDING L/C	INCREASE(DECREASE)	GROWTH%
2001/02	3,53,889	-	-
2002/03	4,12,451	58,562	16.55
2003/04	4,68,329	55,878	13.55
2004/05	8,15,340	3,47,011	74.10
2005/06	8,84,458	69,118	8.48
2006/07	5,07,319	(3,77,139)	(42.64)
2007/08	8,59,541	3,52,222	69.43
2008/09	9,45,224	85,683	9.97

(Source: NIC Bank Annual Reports)

Above table shows, that the letter of credit outstanding increasing each year except in the year 2006/07. It had a record growth of 74.10% in the year 2004/05 and decreasing growth rate 42.64% in the year 2006/07.The growth in L/C business of the bank year has been presented in the scatter diagram as below:

Diagram No 9: Scatter diagram showing Letter of Credit



4.2.3.2. Bank Guarantees:

Bank issue the bank guarantee of behalf of their customers for bidding and or performing any activities by the letter in favor of the employer of the activities. It is a guarantee letter 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 our study and change in subsequent year.

Table No 15: Status of Bank Guarantee **(in"000")**

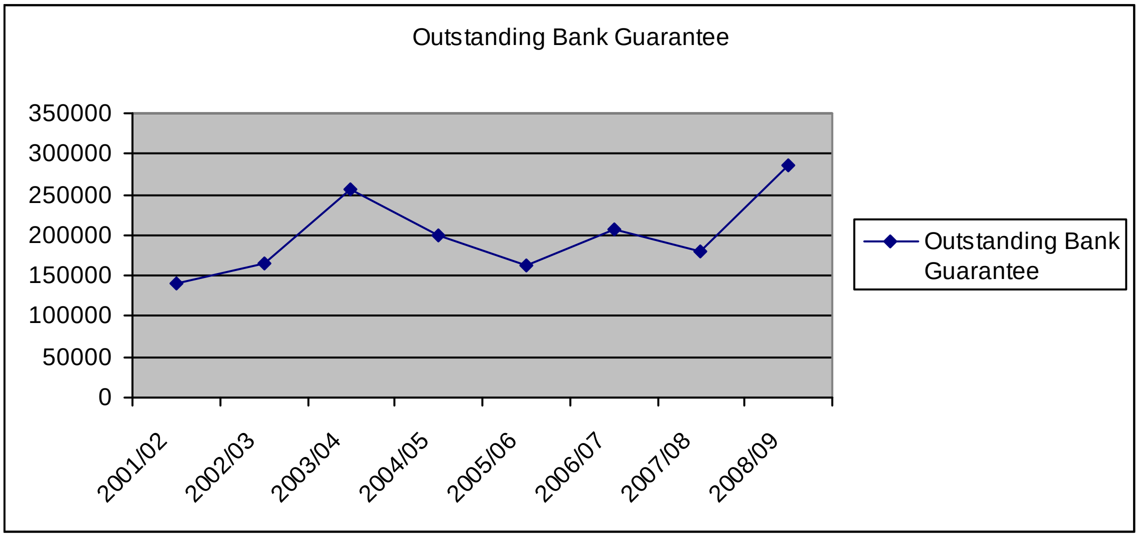
Fiscal Year	Outstanding Bank Guarantee	Increase(Decrease)	Growth%
2001/02	1,39,934	-	-
2002/03	1,65,960	26,026	18.60
2003/04	2,56,108	90,148	54.32
2004/05	1,99,309	(56,799)	(22.18)
2005/06	1,61,769	37,540	(18.84)
2006/07	2,07,272	45,503	28.13
2007/08	1,79,619	(27,653)	(13.34)
2008/09	2,86,286	106,667	59.39

(Source: NIC Annual Report)

Above table shows that, the bank guarantee outstanding liability is increasing or decreasing every year. It and a maximum growth rate 59.39% in the year 2008/09 and it had a negative growth rate 22.18% and 13.34 in the year 2004/2005 and 2007/08 respectively.

The growth in L/C business of the bank year has been presented in the scatter diagram as below

Diagram No 10: Scatter diagram showing Bank Guarantee



4.2.4. Expenditure planning of NIC Bank

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 these expenditures. NIC Bank has started preparing Expenditure and Revenue budget.

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

Table No 16: Yearly Cost Structure **(in"000)**

Yearly Cost Structure	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Interest Income	294,219	297,764	291,143	363,637	457,610	579,979	725,819	931,400
Exchange Earning	23,669	18,831	12,182	20,832	24,606	25,388	44,277	39,657
Commission& Discount	22,377	18,563	21,978	27,236	27,102	29,447	36,017	43,373
Other Operating Income	3,923	2,096	2,463	5,561	11,180	20,242	26,175	37,905
Other non opera rting income	-	-	-	40	4,285	59	409	10,649
Total	**344,188**	**337,254**	**327,766**	**417,306**	**524,783**	**655,115**	**832,697**	**1062984**

(Source: NIC Annual Report)

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

4.2.4.1. Interest Expenses

Interest expresses 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 resources of the bank, interest expenses is also highest among other in total expenses of the bank.

Now we analyze the interest expenses to total deposit mobilization by the bank in following table.

Table No 17: Yearly interest expenses to Total Deposits (in"000")

Fiscal Year	Total deposit	Interest exp	Cost of deposit in %
2001/02	3,572,362	180,459	5.05
2002/03	3,165,312	197,094	6.23
2003/04	3,144,312	142,606	4.54
2004/05	5,146,483	183,582	3.57
2005/06	6,241,378	225,992	3.62
2006/07	8,765,951	340,221	3.88
2007/08	10,068,231	421,375	4.19
2008/09	13,084,689	505,995	3.86

(Source: NIC Annual Report)

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 kinds of deposit account from interest free deposit to varying interest deposit accounts. The average cost incurred by the bank for making interest payment to the depositors is called as the cost of deposit (COD) of the bank for a bank refers to better position in terms of profitability.

From above total we can see that the yearly COD of NIC Bank ranges from 3.57 to 6.23% in various years. The average COD for the period of this study is 4.44%. The status of total deposit and the COD is shown tin the bar diagram as below.

Diagram No 11: Bar Diagram Showing Interest Expenses to Total Deposits

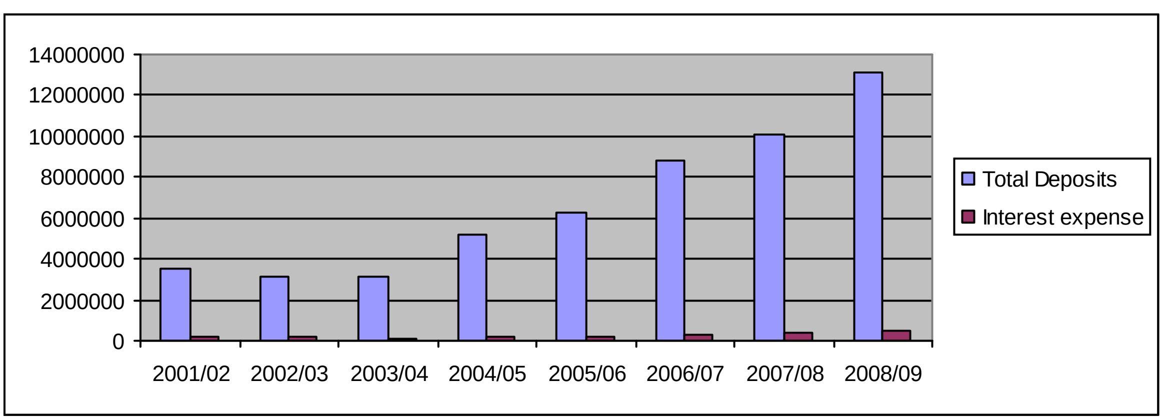
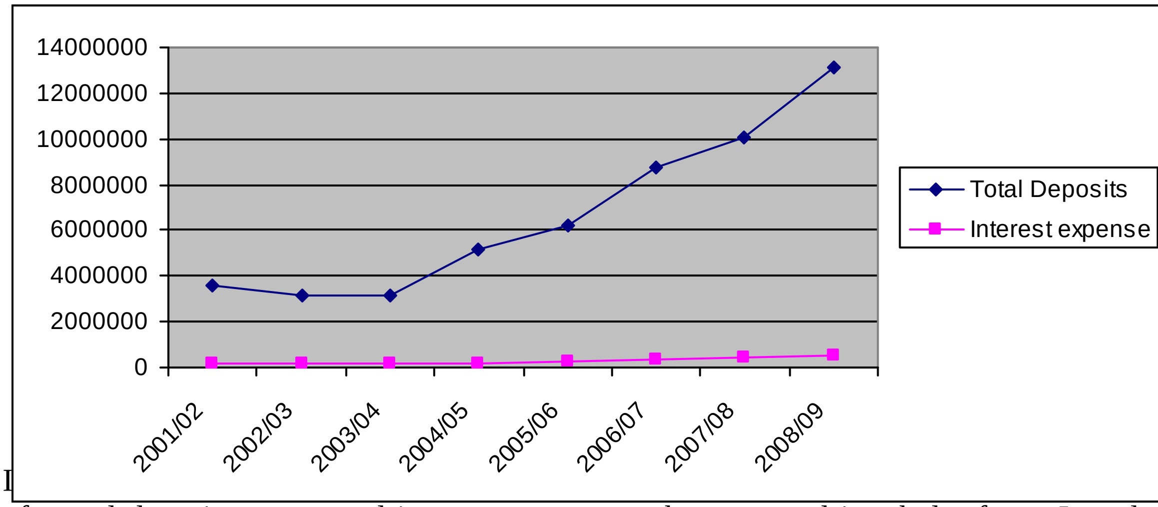


Diagram No12: Scatter Diagram showing interest Expenses to total deposits



I [illegible] ure of actual deposit amount and interest amount can be presented in tabular form. In order to find out the variability of actual deposits and actual interest expenses of different years. We have to calculate arithmetic mean, NIC Bank deviation, coefficient of variation technique and correlation of coefficient the detail calculations of these statistical tools are presented in appendix no 5. Now summarizing the results form appendix no.5 we have.

Table No 18: Summary showing Interest Exp & Total Deposits

Statistical tool's name	Total Deposits in Rs (X) in millions	Interest Expenses in Rs (Y) in millions
Mean $\overline{X}$	6648.25	274.38
Standard Deviation ±	3425.95	123.44
C.V.	51.53%	44.98%

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

Another statistical tool, correlation of coefficient can be used to analyze the relationship between actual outstanding deposit and actual interest expenses. There should be positive correlation between actual outstanding deposit and interest expenses. In other words the actual deposits increases as the actual interest expenses increase or vice versa. To find out correlation between actual deposits and actual interest expenses.

We can take the help of Karl person's coefficient of correlation and it is denoted by 'r'. We can examine whether there is positive correlation between actual deposits outstanding and actual interest expenses or not. For this purpose, actual deposit (x) is assumed to be independent variable and actual interest expenses (y) is assumed to be dependent variable. So that increase in actual deposits will support to increase in interest expenses and vice versa.

After the significance of 'r' is tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' is represented in appendix 5. From this appendix we have calculated value of 'r' and P.E. is respectively 0.226 &0.025. Since r > 6.P.E. (0.226>6x.0.025). The value of 'r' is significant, there is perfect correlation between actual deposits and actual interest expenses incurred.

From the calculation shown in appendix 5, we have obtained the value of 'r' being 0.226 Now the coefficient of determination, which explains by x variable i.e. deposit can be calculated as the square of 'r'.
Therefore, the coefficient of determination $(r)^2 = (0.226) = 0.051$

4.2.4.2. Expenses other than interest expenses.

The operating expenses incurred by the bank for other than interest payments are incurred in other expenses for this study. Such expenses included:
(i) Expenses for employees,
(ii) Operational expenses,
(iii) Non-operating expenses,
(iv) Loan loss provision,
(v) Office operational exposes.

4.2.5. Revenue planning of NIC Bank

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

(i) Income from commission & Discounts
(ii) Income from interest earnings
(iii) Income from exchange

Yearly Cost Structure	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Interest Income	294,219	297,764	291,143	363,637	457,610	579,979	725,819	931,400
Exchange Earning	23,669	18,831	12,182	20,832	24,606	25,388	44,277	39,657
Commission& Discount	22,377	18,563	21,978	27,236	27,102	29,447	36,017	43,373
Other Operating Income	3,923	2,096	2,463	5,561	11,180	20,242	26,175	37,905

Other non opera rting income	-	-	-	40	4,285	59	409	10,649
Total	**344,188**	**337,254**	**327,766**	**417,306**	**524,783**	**655,115**	**832,697**	**1062984**

Table No 19: Yearly Income Structure (in"000")

(Source: NIC Annual Report)

The above table shows that the revenues are increasing each year, Income form interest is the highest among the to others in total revenues for each years.

4.2.5.1 Interest Income:

An interest income contributes the major portion to 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 is popularly called yield on fund (YOF). Bills discounting is also one form of advances therefore, of this study purpose we have grouped the outstanding loan, advances, overdraft and the bills discounted together call LABP and have included the bills discounting commission too in to the interest income amount (YOF). Now we shall analyze the comparative status of total YOF with the total LABP with the help of following table and bar scatter diagram.

Table No20: Status of interest income to Total LABP (In "000")

Fiscal Year	LABP	Interest Income (Y)	Average Yields on LABP%
2001/02	2,585,419	294	11.38
2002/03	2,278,994	298	13.07
2003/04	2,419,523	291	12.03
2004/05	3,561,139	364	10.21
2005/06	4,711,712	458	9.71
2006/07	6,655,964	580	8.71
2007/08	8,941,398	726	8.12
2008/09	11,264,678	931	8.78

(Source: NIC Bank Annual Reports)

From above table we can see that yearly YOF of NIC bank ranges 8.78% to 11.38% in various years. The average YOF for the period of study is 10.25%.

It is significant to analyze the relationship between outstanding LABP and interest income(YOF). The figures of LABP amount and interest income amount have been presented in tabular form above. In order find out the virility of actual LABP and actual interest income of different years we have to calculate arithmetic mean, NIC Bank deviation, coefficient of variation technique and correlation of coefficient. The detail calculation of these statistical tools is presented in appendix no.6. Now summarizing the results from appendix 6, we have.

Table No 21: Summary showing LABP & Interest Income

Statistical tool's name	LABP in Rs (X) in millions	Interest Income in Rs (Y) in millions
Mean X	5302.25	492.75
Standard Deviation	3139.00	220.79
C.V.	59.20%	44.80%

The above results show that actual outstanding LABP are more variable than interest income. Hence the coefficient of variation of actual outstanding LABP is higher than of interest income. Another statistical tool correlation of coefficient can be used to analyze the relationship between actual outstanding LABP and interest income. There should be positive correlation between actual outstanding LABP and interest income. In other words the actual LABP increase interest income and actual outstanding LABP, we can take the help of Karl persons coefficient correlation and it is denoted by 'r' we can examine whether is positive correlation between interest income and actual LABP outstanding or not.

For this purpose actual LABP (X) is assumed to be independent variable and interest income is assumed to be dependent variable. So that, increase in LABP will support to increase interest income and vice visa. After this significance of 'r' is tested with probable error of 'r' detail calculation of 'r' and probable error of 'r' is presented in appendix 6. From this appendix we have calculated value of 'r' and P.E. 0.447 and 0.01 responsively. Since, r>6P.E. (0.447>6x0.01) the value of 'r' is significant there is perfect correlation between actual LABP and actual interest income. From
the calculation show in appendix 6, we have obtained the value of 'r' being. Now coefficient of determination, which explains the change in y variable i.e. interest income variable i.e. LABP can be calculation as the square of (r).

$(r)^2 = (0.447)^2 = 0.199$

The data of actual LABP and interest income incurred can also be presented in diagram below.

Diagram No 13: Bar Diagram Showing Interest Income & LABP

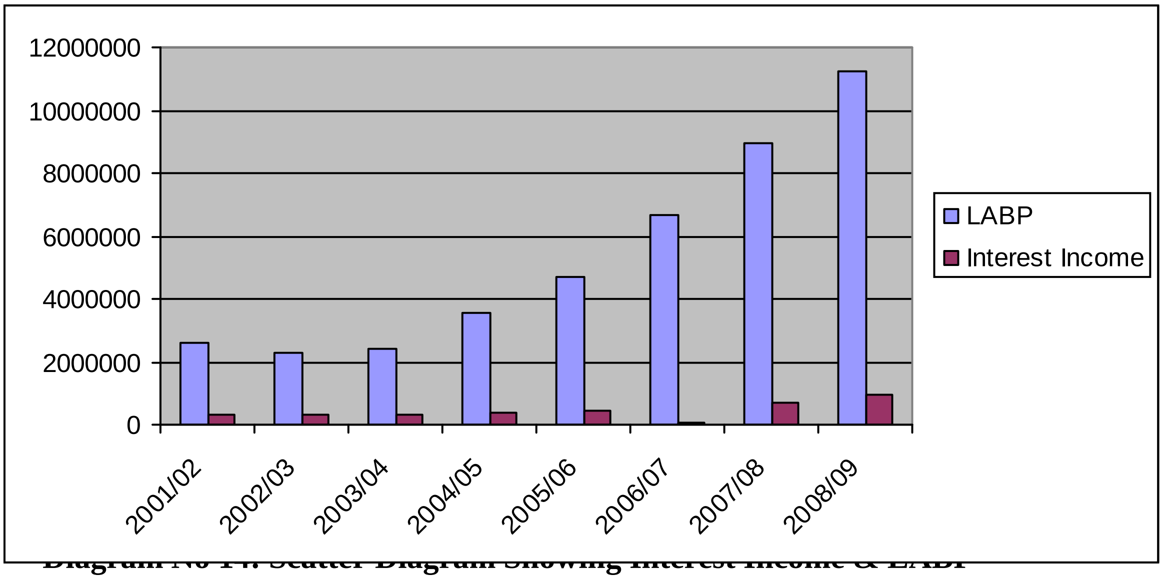
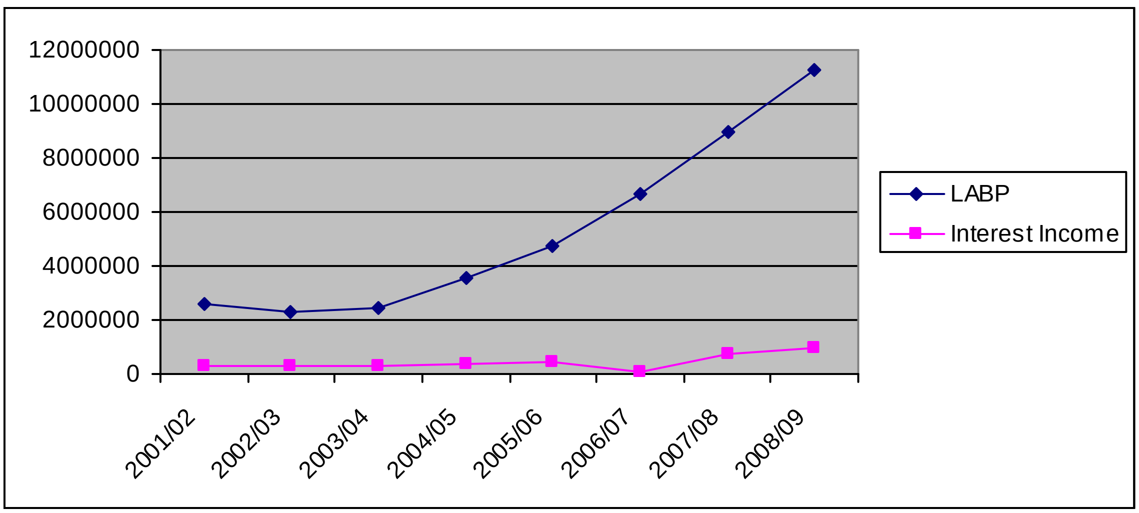


Diagram No 14: Scatter Diagram Showing Interest Income & LABP



From above bar and scatter diagram we can conclude the LABP and interest income is in increasing trend.

4.2.6 Income other than interest income

Income by the bank other than interest income is called other income. Most part of such income are earned from non fund based activities in the form of commissions, fees, charges profit foreign exchange sale, revaluation gain, commitment charge, remittance fees, service charges etc

4.2.6.1.Interest spread

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

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

Table No 22:Status showing Interest Income & Interest Expenses (in"000')

Fiscal Year	Interest Income (X)	Interest Expense (Y)	Interest Spread
2001/02	294,219	180,459	113,760
2002/03	297,764	197,094	100,670
2003/04	291,143	142,606	148,537
2004/05	363,637	183,592	180,055
2005/06	457,610	225,992	231,618
2006/07	579,979	340,221	239,758
2007/08	725,819	421,375	304,444
2008/09	931,400	505,995	425,405

(Source: NIC Bank Annual Reports)

Diagram No 15: Bar Diagram Showing Interest income, Interest Exp and interest spread

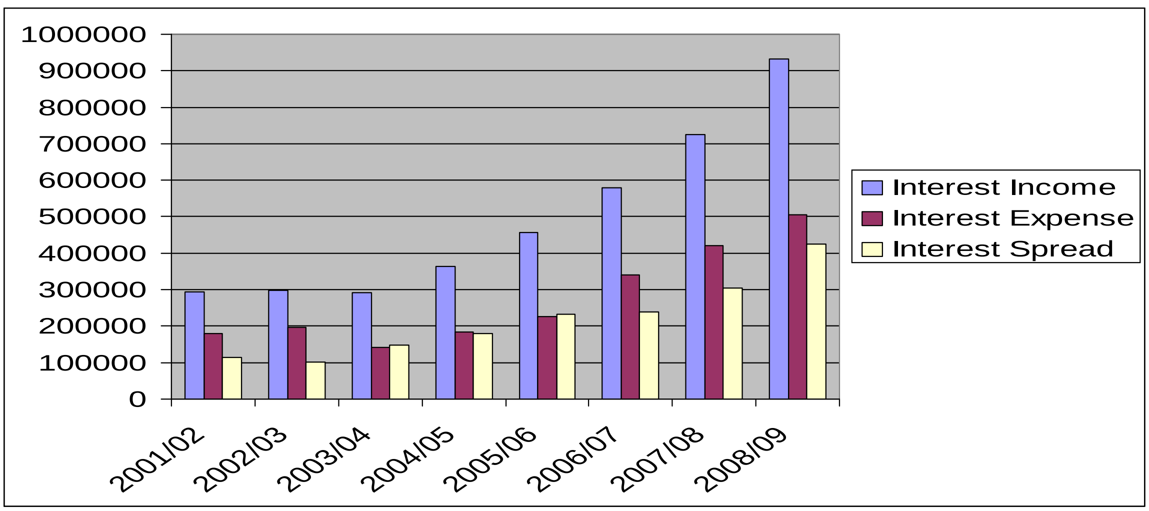
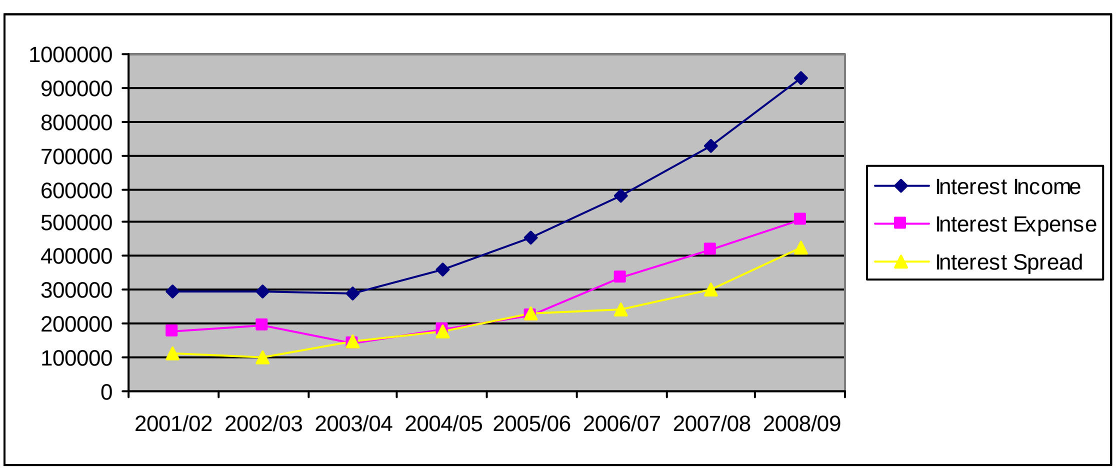


Diagram No 16: Scatter Diagram Showing Interest income, Interest Exp and interest spread



From the above table and diagrams we can see that the trend of increasing the interest income is much more higher than the increment of interest expenses due to which interest spread in increasing trend every year.

Burden

Burden is the overall expenses of the bank excepting interest expenses incurred for the payment at deposit interest. That is, the operating cost of the bank excepting cost of the bank. Accepting interest cost is called net burden. The net burden is net amount of burden cost obtained which is 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 the period of the study.

Table No23: Showing the Net Burden of NIC Bank **(In"000)**

Fiscal Year	Other Expenses	Other Income	Net Burden
2001/02	115,453	49,969	65,484
2002/03	133,341	39,490	93,851
2003/04	159,215	36,623	122,592
2004/05	164,864	53,669	111,195
2005/06	185,035	67,173	117,862
2006/07	218,306	75,136	143,170
2007/08	279,847	133,878	145,969
2008/09	561,397	379,050	182,347

(Source: NIC Bank Annual Reports)

The above table shows that Bank's other expenses in much more higher than other income. And increment other expenses is very higher than increment of other income due to which Net burden of the Bank is increasing every year.

Diagram No 17:Bar Diagram showing other expenses and other income

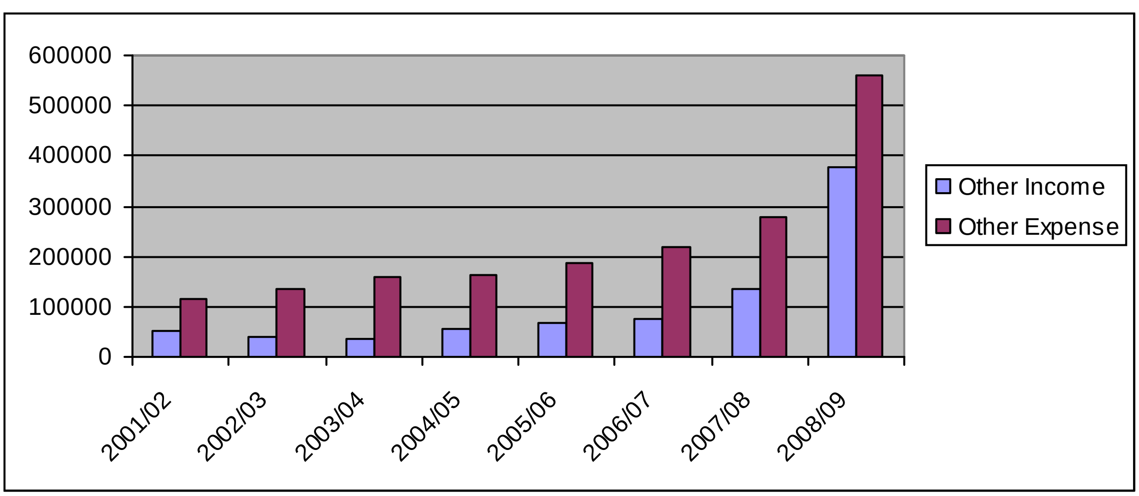
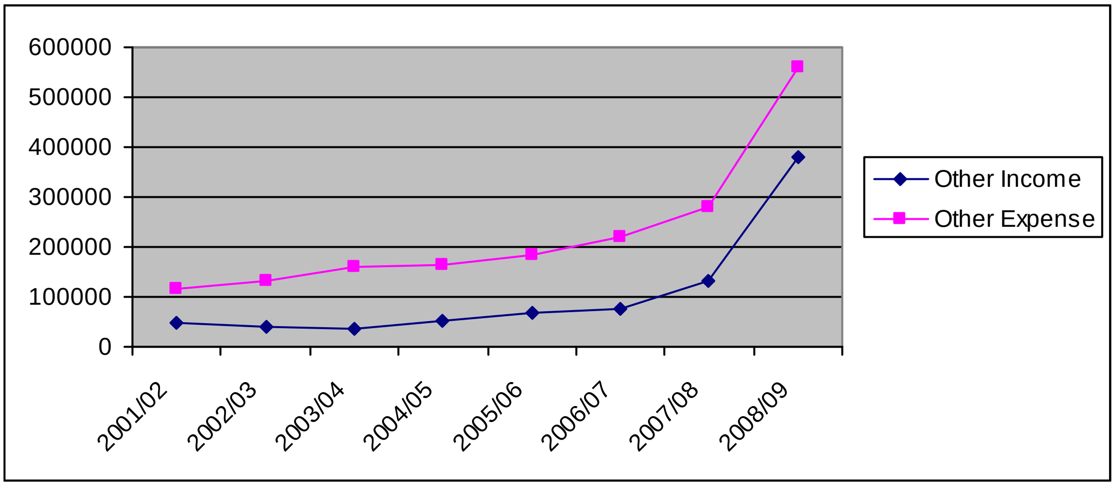


Diagram No 18:Scatter Diagram showing other expenses and other income



The above diagrams indicate that bank's other expenses much more higher than the other income due to which net burden for the bank is increasing every year which is also adversely affecting the net profit of the bank.

4.2.7. Net Profit

Profit is excess of income over expenses and loss is excess over the income. In this context, this study has calculated the net profit being the excess spread over the burden. Spread is 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 graph shows the status of spread burden and Net profit of various year of the study.

Table No 24: Showing Net Profit of NIC Bank **(in"000")**

Fiscal Year	Interest Spread	Burden	Net Profit
2001/02	113,760	65,484	48,276
2002/03	100,670	93,851	6,819
2003/04	148,537	122,592	25,945
2004/05	180,055	111,195	68,860
2005/06	231,618	117,862	113,756
2006/07	239,758	143,170	96,588
2007/08	304,444	145,969	158,475
2008/09	425,405	182,347	243,058

(Source: NIC Bank Annual Reports)

Above table shows that the interest spread of the bank is increasing every year in comparison to net burden of the bank. The bank has the highest net profit of NPR 243 Million in the year 2008/09 and the lowest net profit of 6.8 million in the year 2002/03

The increasing trend of net profit is also can be shown by following diagrams.

Diagram No 19: Bar Diagram showing Net Profit

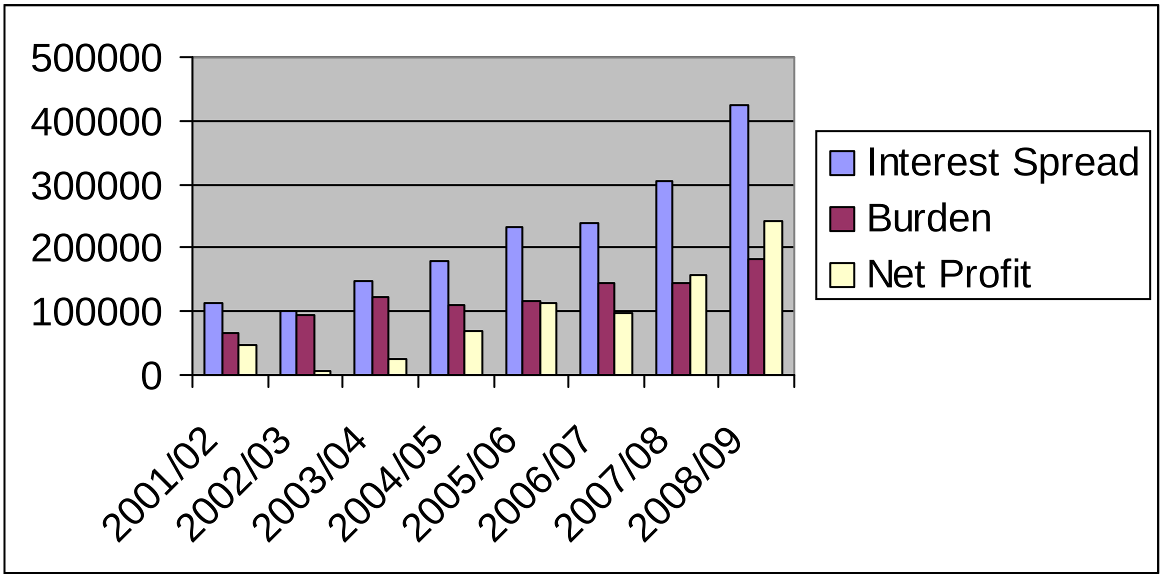
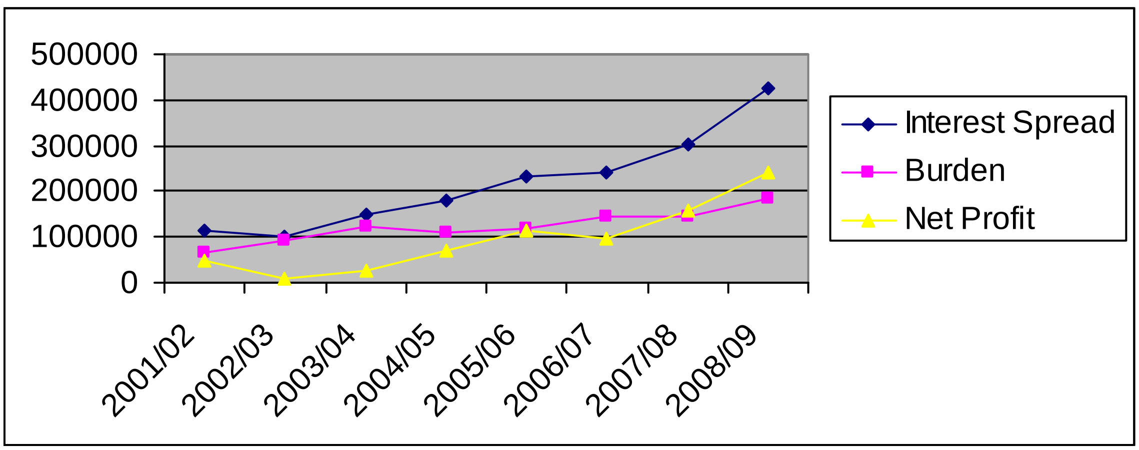


Diagram No 20: Scatter Diagram showing net profit



4.3. Performance Evaluation of NIC bank

"Performance evaluation for internal management use in important part of a comprehensive planning and control system". (Welsh-1998). All companies regardless of their site have reporting requirements to show their overall performance.

Performance reporting is an important phase of control process. We can use various technique and criteria to evaluate performance of NIC Bank, Which are as follows.

1) Ratio analysis
2) Cost volume profit analysis

4.3.1 Ratio Analysis

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

1) Liquidity ratio
2) Activity ratio
3) Capital structure ratio
4) Profitability.

4.3.1.1. Liquidity Ratio

The ability of a firm to meet its obligation in the short terms is known as liquidity. It reflects the short-term financial strength of the firm. Now we use current ratio to measure relationship of current assets and current liabilities of NIC Bank.

The current ratio, one of the most commonly cited financial ratio, measure the firms ability to meet its short-term obligations. Current ratio is the ratio of current assets to current liabilities. Current assets are cash and other "nearness to cash" which can be converted into cash within one accounting period. Where as the current liabilities are those short term obligations, which can be pay with in a year. Current assets represents cash and bank balance investment in treasury bills, money at call, loans and advances, bills purchased and discount inter branch account, other short term loans, receivables and repaid expenses. Current liabilities refer to the short-term maturity objection, which includes all deposit liabilities, intra-bank reconciliation account, bills payable, tax provision, staff bonus, dividend payable, bank overdrafts, provisions, accrued and accrued expenses. The current ratio is expressed as follows:

$$\text{Current Ratio} = \frac{current - assets}{current - liabilities}$$

Table No 25: Calculation of Liquidity Ratio **(in "000")**

Fiscal Year	Current Assets	Current liabilities	Ratio
2001/02	979,747	580,324	1.69
2002/03	681,088	578,070	1.18
2003/04	414,521	302,185	1.37
2004/05	564,920	381,647	1.48
2005/06	1,163,956	1,073,775	1.08
2006/07	1,205,216	1,057,112	1.14
2007/08	983,113	972,136	1.01
2008/09	1,299,999	1,023,154	1.27

(Source: NIC Bank Annual Reports)

The above table shows that the current assets of NIC Bank have always exceeded the current liabilities for the study period 2001/02 to 2008/09. The bank has the highest current ratio of 1.69 in 2001/02 and the lowest current ratio of 1.01 in 2007/08 with an average ratio 1.28

during the study period. In general, the bank is able to meet its short-term obligations. Therefore the above current ratio analysis of the bank over the 8 years period indicates that the bank has sound liquidity ratio.

4.3.1.2 Activity ratio (Employee Productivity Ratio)

The relationship between various activities and the number of employees are indicated by employee productivity (activity ratio). These ratios reflect how efficiently the organization is utilizing its manpower. These are expressed as LABP per employee, deposit per employee and non-funded activities per employee.

Table No 26: Calculation of Employee Productivity **(in "000")**

Fiscal Year	Deposit collected	LABP	Net Profit	No.of Employee	Deposit Per Employee	LABP Per Employee	Net profit per Employee
2001/02	3,572,362	2,585,419	48,276	127	28,128.83	20,357.63	380.13
2002/03	3,165,312	2,278,994	6,819	127	24,923.72	17,944.83	53.69
2003/04	3,144,312	2,419,523	25,945	128	24,564.94	18,902.52	202.70
2004/05	5,146,483	3,561,139	68,860	140	36,760.59	25,436.71	491.86
2005/06	6,241,378	4,711,712	113,756	157	39,754.00	30,010.90	724.56
2006/07	8,765,951	6,655,964	96,588	166	52,806.93	40,096.17	581.86
2007/08	10,068,231	8,941,398	158,475	189	53,271.06	47,308.98	838.49
2008/09	13,084,689	11,264,678	243,058	232	56,399.52	48,554.65	1,047.66

(Source: NIC Bank Annual Reports)

Above table shows that deposit per employee is an increasing trend and LABP and Net profit per employee in increasing and decreasing trend.

4.3.1.3. Capital structure ratios (Leverage Ratio):

Capital structure ratios of leverage, ratios measure the proportion of outsider's capital in financial the firm's assets and are calculate by establishing relationship between borrowed capital and equity capital. A firm should have a strong short-term liquidity as well as long-term financial position. Higher leverage ratio, indicates larger amount of borrowed funds used by the firm finance its assets and it also indicates increasing obligations and known as risky firm. A firm most have sufficient margin of equity to pay the fixed charges and refund the borrowed funds in maturing date. The following ratios are used to measure the long-term solvency position NIC Bank with the help of past 8 year's financial data of the bank.

1) Total debt to shareholders equity ratio,

2) Total debt to total Assets ratio.

1) Total debt to shareholder equity

The debt equity ratio indicates the relationship between the long-term funds provided creditors and those provided by the firm's owner. The total debt refers to the total current liabilities plus the borrowing from the other banks. It is commonly used to measure the debt of financial leverage of the firm and is calculated as follows:

Total debt to shareholder's equity ratio = $\frac{total - debt}{Shareholder's - equity}$

Table No 27: Total Debt to Shareholder's Equity **(in"000)**

Fiscal Year	Total Debt	Shareholder's equity	Ratio
2001/02	3,678,132	519,114	7.085
2002/03	3,242,557	526,096	6.163
2003/04	3,485,418	552,101	6.313
2004/05	5,309,669	620,398	8.558
2005/06	6,823,874	684,194	9.974
2006/07	9,617,140	766,462	12.547
2007/08	10,760,844	917,990	11.722
2008/09	10,566,541	1,076,908	10.192

(Source: NIC Bank's annual Report)

The above table shows that debt to equity ratio of the bank varies from maximum of 12.55 times in a year 2006/07 to the minimum of 6.16 times in a year 2002/03 with an average of 9.19 times during the study period. The analysis indicates that the bank has the wish debt equity ratio, which means the creditors have invested more in the bank than the owner.

2) Total debt to total assets ratio

The ratio exhibits the relationship between creditors funds and owners capital. The ratio shows the proportion of outsider fund used in financing total asset. The ratio is calculated by dividing the total debt of the bank by its total assets, which is presented below.

Total debt to total asset = $\frac{total - debt}{total - assets}$

Table No 28: Total Debt to Total Assets **(in'000')**

Fiscal Year	Total Debt	Total Assets	Ratio
2001/02	3,678,132	4,197,246	87.63
2002/03	3,242,557	3,768,653	86.04
2003/04	3,485,418	4,037,519	86.33
2004/05	5,309,669	5,930,067	89.54
2005/06	6,823,874	7,508,068,	90.89
2006/07	9,617,140	10,383,602	92.62
2007/08	10,760,844	11,678,834	92.14
2008/09	10,566,541	15,238,736	69.34

(Source: NIC Bank Annual Reports)

The above table shows that the debt to total assets of the bank varies from maximum of 92.62 in year 2006/2007 to the minimum 69.34% in year 2002/03 with an average of 86.81 during the study period. The analysis indicates that the bank has the wish debt equity ratio, which means the creditors have invested more in the bank than the owners

4.3.1.4 Profitability Ratio:

There are many measures of profitability each relate the returns of the firm to its assets and equity or share value. As a group these measures allow the analysis to evaluate firm's earnings with respect to a given level of sales, a certain level of assets, the owner's investment of share value.

Profit is different between total revenues and total expenses over a period of time. Profit is the ultimate put of a commercial bank and it will have no future if it fails to make sufficient profits. Therefore, the financial manager continuously evaluates the efficiency of the bank in terms of profits. The profitability ratios in the study are calculated to measure the operating efficiency and performance of NIC Bank

Table No29:Showing Return on Assets and Return on Equity (in"000)

Year	Net profit	Total Assets	Shareholders' Equity	Return on Assets	Return on Equity
2001/02	48,276	4,197,246	519,114	1.15	9.30
2002/03	6,819	3,768,653	526,096	0.18	1.30
2003/04	25,945	4,037,519	552,101	0.64	4.70
2004/05	68,860	5,930,067	620,398	1.16	11.10
2005/06	113,756	7,508,068,	684,194	1.52	16.63
2006/07	96,588	10,383,602	766,462	0.93	12.60
2007/08	158,475	11,678,834	917,990	1.36	17.26
2008/09	243,058	15,238,736	1,076,908	1.60	22.57

(Source: NIC Bank Annual Reports)

Table No 29. Shows the results of return on assets, total deposit and Net worth of NIC bank, which is remarkable. It indicates net profit of NIC bank is an increasing trend. The profitability ratio of

NIC bank is sound and strong. Its profit ratio indicates of the higher overall efficiency of the NIC Bank and better utilization of total resources available.

4.3.2. Cost Volume Profit Analysis:

The relationship between cost volume and profit is known as cost volume profit analysis. It is an analytical tool for studying the relationship between volume, cost and profit. It is also an important tool used for the planning in the business there are three factors of costs volume of profit analysis which are interconnected and dependent on one another for example profit depends up on sales, selling price to a greater extend will depend upon the cost, cost depend up on the
volume of productions.

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

CVP analysis of NIC BANK is selected on following assumptions.

- Activity base is selected in terms of RS. '000'
- Cost volume structure is based on the accounting data of fiscal year 2008/09 and CD ratio and YOF is taken for the cost 8 years average.
- In case of bank, net burden is treated as fixed cost, which is calculated in the basis of total other, cost and totals other income of fiscal year 2008/09. And interest margin (spread) is calculated on the basis total interest income and total interest expenses of fiscal year 2008/2009.

Cost Volume Profit Analysis of NIC Bank **Amount in "000"**

Total Interest Income = Rs.931,400

Total Interest Expenses = Rs.505,995

Total Other Expenses = Rs.561,397

Total Other Income = Rs.379,050

Average Yield on Fund (YOF) = 10.83%

Average CD ratio = 77.34%

Net Burden = Total Other Expenses - Total Other Income

= 561,397 – 379,050

= Rs.182,347

Interest margin (spread),

= Total Interest Income - Total Interest Expenses

= 931400 - 505995

= Rs425,405

i) We can calculate the BEP in terms of interest income of NIC bank

$$\text{BEP in \%} = \frac{\underline{\textit{net – burden x100}}}{\textit{spread}}$$

$$= \frac{182347 \times 100}{425405}$$

= 42.86%

BEP In Rs = Interest Income x BEP%

= 931400x42.86%

= 399,198.04

We find NIC Bank's break-even interest income level is Rs 399,198.04

ii) Margin of safety for the year 2008/09, can be calculated as below

Margin of safety = Total Interest Income - BEP income

= 931400 -399198.04

= 532201.96

Margin of safety ratio for 2008/09,

$$\text{Margin of safety ratio} = \frac{532201.96 \times 100}{931400}$$

= 57.14%

iv) BEP in terms of Volume of LABP can be calculated as below:

$$\text{BEP LABP} = \frac{\textit{BEP – interest - income}}{\textit{average YOF}}$$

$$= \frac{399198.04}{0.1083}$$

= 3,686,039.15

v) BEP in terms of Volume of deposits can be calculated as below:

$$\text{BEP Deposit} = \frac{\textit{BEP- LABP}}{\textit{average – Cdratio}}$$

= 3686039.15

0.7734
= 4,766,019.07

4.4. Cash Flow Analysis

Following table presents cash flow statement of the bank for last 2 years, which gives the satisfactory picture of cash in flow to meet the required cash out flow with in the bank for period.

Table No 30: Cash Flow Analysis (in"000")

Pervious Year	Particulars	Current Year
218,944,447	**A. Cash Flow From Operations**	**328,561,744**
822,497,760	**1.Cash Receipts**	**1,071,831,874**
725,819,040	1.1 Interest Income	931,400,562
36,017,034	1.2 Commission & Discount Income	43,373,395
34,105,111	1.3 Exchange Gain	43,483,544
-	1.4 Recovery of Write off Loan	5,483,047
26,556,575	1.5 Other Income	48,091,326
603,553,313	**2.Cash Payments**	**743,270,130**
421,374,951	Interest expenses	505,995,879
54,870,384	Staff Expenses	66,723,246
49,960,610	Office Overhead Expenses	60,546,793
70,400,000	Payment of Income Tax	100,000,000
6,947,368	Other Expensed	10,004,212
(232,868,310)	**Cash Flow Before Working Capital Activities**	**187,999,668**
(1,349,412,459)	**Decrease/(Increase) in Current Assets from Operating Activities**	**(2,928,161,461)**
190,506,059	Decrease/(Increase) in Money at call & Short Notice	3,009,044

895,186,474	Decrease/(Increase) in Other Short term Investments	(702,114,767)
(2,320,982,492)	Decrease/(Increase) in Loans, Advances, and Bills Purchased	(2,348,205,368)
(114,122,500)	Decrease/(Increase) in Other Assets	119,149,630
1,116,544,149	**Decrease/(Increase) in Current Liabilities from operating Activities**	**3,116,161,129**
1,302,280,231	Increase/(Decrease) in Deposit/Liabilities	3,016,457,803
-	Increase/(Decrease) in Certificate of Deposits	-
(105,576,346)	Increase/(Decrease) in short term Borrowings	(17,128,714)
(80,159,736)	Increase/(Decrease) in Other Liabilities	116,832,040
(145,628,362)	**B. Cash Flow from Investing Activities**	**(72,022,599)**
(14,755,000)	Decrease/(Increase) in Long Term Investments	(9,872,500)
(126,499,903)	Decrease/(Increase) in Fixed Assets	(58,032,378)
-	Interest Income from Long Term Investments	-
27,151	Dividend Income	462,869
(4,400,610)	Others (Capital Construction Items)	(4,580,590)
-	**C. Cash Flow From Financial Sources**	**151,877,100**
-	Increase/(Decrease) in Long Term Borrowings (Bond, Debenture etc)	-
-	Increase/(Decrease) in Paid in Capital	151,877,100
-	Increase/(Decrease) in Other Liabilities	-
-	Increase/(Decrease) in Refinance/Facilities from NRB	-
10,171,778	**D. Income/Loss fro m change in Exchange rate of Cash & Bank Balance**	**(3,825,759)**
(149,380,447)	**E. Net Cash Flow of the Year**	**592,590,154**

749,139,079	**F. Opening Cash and Bank Balance**	**599,758,632**
599,758,079	**G. Closing Cash and Bank Balance**	**1,192,348,786**

4.5. Major Finding

The major findings of this research study on profit planning in commercial bank, a case study of Nepal Industrial & Commercial Bank are as follows:

1. Management and Personnel

a. It is observed that the bank is adopting a policy to keep minimum but deserved and qualified number of employees as possible. But it has unnecessary long ladder at various levels with out specific job description comparison to other banks.

b. The strategic planning and managerial decisions making process is highly centralized, however, top management takes the feed forwards and strategy building through manager conferences and strategic meeting organized ones in every year.

c. NIC Bank lacks active and organized planning department to undertake innovative products research and development works.

d. Advanced and practical oriented training for career development to the employees is lacking.

e. Bank has the policy to employ academically highly qualified (first class MBA) fresh candidates at Management trainee, which may be future manpower building, but the bank neglects the product of Tribhuvan University who have passed MBS.

2. Branch Office;

a. NIC Bank is currently operating with its 11 branch offices making its presence at almost all of the cities of the country.

b. Controlling functions of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come stretch. However, the effective management team of NIC bank is good enough to regulate the entire branches from the head office.

3. Objectives of the Banks:

a. To provide complete financial solutions to the customers.

b. To become top commercial bank among 26 commercial banks (including Agriculture Development Bank) of Nepal.

4. Resources Mobilizations

a. Major concentration of resources mobilization of NIC Bank 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 considerable growing every year with an average growth over the period of last seven years being as high as 14.86%. In current fiscal year 2006/07.

c. The targets set for deposit mobilization by the bank has been well met every year.

d. From regression analysis of the budget and actual achievements, by coefficient of variance, it is found that, the actual deposits are more variable than the budgeted one.

e. From regression analysis of the budgeted and actual deposits, remaining the trend same for the coming year too, the deposit to be mobilized by the bank by the end of F/Y 2007/08 shall reach up to 10,193.7 millions.

5. Resources Development

a. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) is decreasing trend every year, which is objectives, however it is not supportive to meeting liquidity requirements of the banks.

b. Major portion of the resources have been deployed in LABP.

c. The targets for deployment to be considerable increasing every year

d. LABP of the bank has found to be considerably increasing every year, with an average growth over the period of last seven years is as high as 21.34%

e. From the analysis of Budgeted and Actual LABP with the help of co-efficient of variance, it is found that, the actual LABP is more variable than the budgeted one.

f. From the regression analysis of budgeted and actual deposit, remaining the trend same as before, the estimated LABP by the end of F/Y 2007/08 shall be of Rs. 10,193.7 million.

g. CD Ratio (Credit to Deposit Ratio, Ratio of LABP on total Deposit expressed in percent term) of the bank is high. The average CD ratio of the bank for the period of last seven years is as high as 75.82%.

h. The data analysis of LABP and deposit, with the help of Karl Person's co-efficient of correlation shows that, the deposit and the LABP are perfectly correlated.

i. The data analysis of Deposit and LABP with the help of coefficient of variation shows that LABP is more variable than the Deposit.

6. Non-Funded business activities

a. Outstanding letter of Credit liability of the bank is increasing every year except in the f fiscal year 2005/06 which is decreased by 42.64%.
b. Outstanding guarantee liability of the bank is not consistent.

7. Expenditure

a. Interest expenses amount is the highest among total expenses items of the bank every year.

b. The interest expense of the bank is found increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.

c. Average cost of deposit (calculated as the ratio of total interest expenses during a year on the outstanding deposit as of the year and expressed in percent term) of the bank is found to increase

during the year 2001/02 & 2006/07 comparison to its preceding years respectively but it has reduced gradually from F/Y 2001/02. The average COD over the period has been found to be at 4.44%.

d. Other expenses of the bank are also in increasing term every year.

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 every year corresponding to increase in LABP. There is a perfect and positive correlation between interest income and LABP.

c. Average yield on LABP (ratio of interest income on total LABP expressed in percent term) was at the highest level of 13% in the fiscal year 2001/02, which decreased afterwards and reached up to 8.12% during F/Y 2006/07. The average yield on LABP for the last seven years has remained at 10.46%.

d. The other income of bank is also in increasing trend.

e. The interest spread or the amount of interest margin is found to be increasing every year. From the study it is found that during the period of last seven years, average 56.16% of interest income is spent over paying interest to margin or spread on average of 43.84% of interest income amount.

f. Net burden of the bank is increasing every 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 lowest profit of Rs. 6.82 million during Fiscal year 2001/02 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 ratio of the bank has found to be always lower than standard ratio of 2:1, which shows unsatisfactory liquidity position of the bank.

b. Generally the debt equity ratio of the banks are higher because they mobilize fixed deposit much more times of their capital fund. exception to it. The average debt equity ratio of the bank is approximately 8.9:1

c. From the study of total number of manpower and total volume of overall activities of the bank, it is found that the volume of business per employee is increasing every year, which suggests increasing productivity of manpower.

d. From the profitability ratio, it is found that, the ROC (Return On Capital) is lowest for the fiscal year 2001/02, afterward it is F/Y 2005/06 where it has slightly decreased. This may be due to higher rate of increase in capital fund than that of net profit.

e. From the cost volume profit analysis, the break even income level of the bank is found to be Rs. 348,001.84(thousands) and BEP LABP and BEP Deposit to be 3,612,018.71(thousands) and 3763939.25(thousands) respectively.

The data presentation, analysis and major findings for this study shown above. The forthcoming chapter includes the Summary, Conclusion and Recommendation.

CHPATER -FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The prosperity of every developing country can only be ensured by its economic growth. The role of Commercial Banks in the economic growth of the nation can be fairly estimated to be very prominent. By mobilizing the scattered idle resources from the savers, commercial banks tools the fund in a sizable volume in order 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 thereby raising the employment opportunities and earning to the laborers and materials and service providers to such industries and 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 on, the economy of the nation also grows.

To remain as the major contributing factor to the growth of the nation's economy, the banks also have to have sustainable existence and growth of themselves. For the sustainable existence and growth of a bank,, it must ensure the banks are formed as joint stock companies 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 choose to increase its capital base to make it stronger and more sustainable for facing any future threat that may come up. A profit earning organization can better feed to their employees, thereby enhancing the morale of the employees and motivate them for better performances

Therefore, profit for commercial organizations has been defined as the life-blood for them. A commercial bank also, being a commercial institution, has to plan for the reasonable profit earnings. Profit planning, in short, cost. This study aims at examining the applications of profit planning in a commercial bank, with a specific case study of Nepal Industrial & commercial bank Limited.

Nepal Industrial & Commercial Bank is one of the well-run commercial bank in Nepal established in the year 1998 from the Nepalese promoters. As the bank has just completed ten years of its operation, it has achieved so many successes in the way of its operation.

This study has tried to cover the various aspects of Budgeting and Profit Planning in the bank from the time of its inception of the end of fiscal year 2006/07. In the first introductory chapter, this study report has tried to give of the concerned bank, general concepts to the profit and profit 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 complied into the chapter two titled as 'Review of Literature' of this study report.

Research methodologies followed for this research works are mentioned in the Chapter three titled as 'Research Methodology'.

Data relating to various activities of the Bank has been collected, presented in tabular and various diagram form and are tried to be interpreted in the study report in logical ways. Data are then analyzed applying various financial, systematic manner. All these words 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 research by this study are hereby being presented in this current chapter, chapter five titled as 'Summary, Conclusion and Recommendations."

5.2 Conclusion

The liquidity position of NIC is comparatively better than that of other banks. In spite of the current ratio is average among the other banks. NIC has maintained the cash and bank balance to meet the customers demand. All the banks have met the normal standard current assets ratio to meet the short term obligation of its customer. NIC has invested highest sectors like government securities. NIC had mobilized lots of its funds in order to gain the high profit.

From the analysis of assets management ratio it can be found that NIC is in better position as compared to that of other banks. The loans and advances to total deposit ratio, loan and advances to total working fund ratio of NIC lies in between those of NB and HBL. NIC has invested the highest portion of total working fund on government securities as compared to NB and HBL. Due to more efficient loan policy, NIC suffers less from loan loss provision. It takes low credit risk and has sufficient deposit of none bearing interest which can be used in a creation period. Any how NIC has also trying to best in loan loss provision. Investment on shares and debentures to total working fund ratio is higher in NIC.

The interest earned to total outside assets and return on total working fund ratio of NIC is lowest of all. But overall of profitability ratios, NIC is average profitable in comparison to other compared bank i.e. NB and HBL. To make the profit NIC is taking highest risk by providing the higher portion of its deposit as a loan.

The return on loan and advances ratio and return on assets of NIC is lowest of all. The ratio suggests that the earning capacity of the banks loan and advances is satisfactory. The return on assets of the bank is good in average, it indicates the good earning capacity of the bank assets and good utilization of its assets.

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

The degree of risk is average on NIC. The credit risk ratio is higher than the other banks. However the lowest C.V. of credit ratio and average C.V. of liquidity risk ratio and capital ratio over the study period provides for the assurance of consistency of the degree of risk. NIC has showing its good performance by increasing the total deposit, loan and advances and investment in profitable sectors interested earning by providing loan to clients. The trend of the total investment, total deposit, loan and advances and net profit of NIC shows better position than that of other banks.

5.3 Recommendations

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

A. In the internal management and personnel part:

1. Human Resource Department should be restructure for the development of human resources to align with the strategic goal of the bank. Separate Performance Management System should be introduced, which will effectively measures and rewards employee performance and identifies potential.

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

3. Profit planning & control technique should be used for making long term banking strategies and managerial decisions.

4. 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 the productive use.

5. Employee training & career planning at advance level should be given more focus in order to keep the men power updated with the changing practices and the technologies.

6. It is suggested to the bank to form a specific strategic planning and research department, which shall be responsible for developing new innovative products, further development and up-gradation of existing products, which in turn ensure better profitable business for the ban.

7. 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.

7. Since objectives of the bank are much more specific and highly optimistic the management should launch the new innovative products, which will give quality service to the customers and yield better profit.

B. In the Business Part

1. The bank should make the strategic planning to select risk assets growth by maintaining the quality of assets, increasing its market share in retail & Small/Medium Enterprises lending and international trade with a higher focus on treasury operations, risk assets portfolio diversification and better productivity though improvements in internal efficiencies, diversification of the deposits portfolio with bias towards saving deposits with a view to further reduce dependency on large institutional deposits and reduce funding cost.

2. The average cost of deposit of the bank is high, therefore bank should try to lower it by mobilizing more and more low cost or cost free deposits thereby reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on high yielding assets, which are generally not liquid and obviously risky for the bank.

3. Banks CD ratio is high, which is rather a compulsion for the bank to meet the cost of high cost deposits. Higher CD ratio although gives better return in short term, it hampers the liquidity and is more risky for the bank and calls for more provision for loan loss. In this way the profitability of the bank also get hampered on the long run. Therefore the bank should improve its position from lowering the deposit cost and increase the investments in liquid assets although they are of low yield.

4. LABP of the bank has increasing significantly but the part of proper loan assessment and monitoring aspects are not well developed and the infrastructures required (such as trained men power, logistics etc) are not adequate. Therefore with such poor infrastructures, it is not advisable to go aggressively in LABP. The bank should keep adequate required infrastructure to support its objectives.

5. The Nepal Rastra bank has put the restriction the difference of average rate of interest income and average rate of interest expenses of the Bank (i.e spread) not to exceed 5%. 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.

6. Expenses cannot be avoided and always are growing with increasing activities, but it should be optimize and should be related with the income generating activities. Bank should minimize those expenses, which are not related to income earning. Other expenses than interest form a burden to the gross profit margin (interest margin) of the bank; therefore lowering the other expenses the bank shall enhance its profit.

7. 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, NIC Bank shall attempt to lower the burden cost, by increasing the other income and decreasing the other expenses, At the same time it should take a policy to make the interest margin at the maximum extent as allowed by the central bank's norm.

8. The bank has opened its branches at only major cities of the country. Hence, the bank should take initiation to open its branches at urban areas to grab the market and provide better banking services to people.

8. The Bank shall make broad based credit policy and deposit products in coming years to yield maximum profit.

With the abovementioned summary, Conclusion from the study and the recommendations suggested, the report is concluded

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APPENDIX 1 **(In Million)**

Fiscal year	Budgeted Deposit (X)	Actual Deposit (Y)	x=(X- $\bar{X}$)	y=(Y- $\bar{Y}$)	x²	y²	xy
2001/02	3572	3,572	(2578.88)	(3,076.25)	6,650,622.05	9,463,314.06	7,933,279.60
2002/03	3165	3,165	(2985.88)	(3,483.25)	8,915,479.37	12,133,030.56	10,400,566.51
2003/04	3144	3,144	(3,006.88)	(3,504.25)	9,041,327.33	12,279,768.06	10,536,859.24
2004/05	5146	5,146	(1,004.88)	(1,502.25)	1,009,783.81	2,256,755.06	1,509,580.98
2005/06	5539	6,241	(611.88)	(407.25)	374,397.13	165,852.56	249,188.13
2006/07	8656	8,766	2,505.12	2,117.75	6,275,626.21	4,484,865.06	5,302,712.76
2007/08	9985	10,068	3,834.12	3,419.75	14,700476.17	11,694,690.06	13,111,731.87
2008/09	10,000	13,084	3,849.12	6,435.75	14,815,724.77	41,418,878.06	24,771,974.04
Total	∑X=49,207	∑Y=53,188	-	-	∑x² =61,783,436.87	∑y² =93,897,153.48	∑xy =73,815,893.13

Mean of budgeted Deposit ($\bar{X}$) = ∑X / No. of Years

= 49,207/8

= 6150.88

Mean of Actual Deposit ($\bar{Y}$) = ∑Y / No. of Years

= 53,188/8

= 6648.25

Standard deviation of Actual and Budget Deposit

$$\pm = \sqrt{\frac{x\,\mathrm{Z}\,\bar{x}}{n}\;{}^{2}}$$

$\pm$ of Budgeted Deposit (x) $= \dfrac{\sqrt{61783436.87}}{8}$

$= \sqrt{7722929.60}$

$= 2779.01$

$\pm$ *of* Actual deposits (y) $= \sqrt{\dfrac{93{,}897{,}153.48}{8}}$

$= \sqrt{11737144.18}$

$= 3{,}425.95$

C.V. of (X) $= \dfrac{\pm \text{ of } x}{\bar{x}} \text{ X } 100$

$= \dfrac{2779.01}{6150.88} \text{ X } 100$

$= 45.18\%$

C.V. of (Y) $= \pm \dfrac{\text{of } y}{\bar{y}} \; X\ 100$

$= \dfrac{3425.95}{6648.25} \text{ X } 100$

$= 51.53\ \%$

Correlation (r) = $\frac{\sum xy}{n \pm x \pm y}$

$$= \frac{73{,}815{,}893.13}{8 X\ 2779.01 X\ 3425.95}$$

$$= \frac{73815893.13}{76165994.47}$$

= 0.996145

APPENDIX 2
(In Million)

Fiscal year	Budgeted Amount (X)	Actual Amount (Y)	$x=(X-\overline{X})$	$y=(Y-\overline{Y})$	x^2	y^2	xy
2001/02	2,585	2,585	(2,434.25)	(2,717.25)	5,925,573.06	7,383,447.56	6,342,740.81
2002/03	2,279	2,279	(2740.25)	(3,023.25)	7,508,970.06	9,140,040.56	8,284,460.81
2003/04	2,420	2,420	(2,599.25)	(2,882.25)	6,756,100.56	8,307,365.06	7,491,688.31
2004/05	3,460	3,561	(1,559.25)	(1,741.25)	2,431,260.56	3,031,951.56	2,715,044.06
2005/06	4,652	4,712	(367.25)	(590.25)	134,872.56	348,395.06	216,769.31
2006/07	6,599	6,656	1,579.75	1,353.75	2,495,610.06	1,832,639.06	2,138,586.56
2007/08	8,659	8,941	3,639.75	3,638.75	13,247,780.06	13,240,501.56	13,244,140.31
2008/09	9,500	11,264	4,480.75	5,961.75	20,077,120.56	35,542,463.06	26,713,111.31
Total	$\sum X$=40,154	$\sum Y$=42,418	-	-	$\sum x^2$ =58,577,287.50	$\sum y^2$ =78,826,803.50	$\sum xy$ =67,146,541.50

Mean of budgeted LABP ($\overline{X}$) = $\sum X$ / No. of Years

= 40,154/8

= 5019.25

Mean of Actual LABP ($\overline{Y}$) = $\sum Y$ / No. of Years

= 42,418/8

= 5302.25

Standard deviation of Actual and Budget LABP

$$\pm = \sqrt{\frac{x \, Z \, \bar{x}}{n}}^{\,2}$$

$$\pm \text{ of Budgeted amount (x)} = \sqrt{\frac{58{,}577{,}287.50}{8}}$$

$$= \sqrt{7322160.94}$$

$$= 2705.95$$

$$\pm \text{ of Actual amount (Y):} = \sqrt{\frac{78{,}826{,}803.50}{8}}$$

$$= \sqrt{9853350.44}$$

$$= 3139.00$$

$$\text{C.V. of (X)} = \frac{\pm \text{ of } x}{\bar{x}} \text{ X } 100$$

$$= \frac{2705.95}{5019.25} \text{ X } 100$$

$$= 53.91\%$$

$$\text{C.V. of (Y)} = \pm \text{ of} \frac{y}{\bar{y}} \text{ X } 100$$

$$= \frac{3139.00}{5302.25} \quad X\ 100$$

$= 59.20\%$

Correlation (r) = $\frac{\sum xy}{n \pm x \pm y}$

$$= \frac{67146541.50}{8X\,2705.95X\,3139.00}$$

$$= \frac{67146541.50}{67951816.40}$$

$= 0.9981493$

APPENDIX 3 **(In Million)**

Fiscal year	Budgeted Amount (X)	Actual Amount (Y)	x=(X-X)	y=(Y-Y)	x²	y²	xy
2001/02	1,227	1,227	(1148.88)	(1025.13)	1,319,925.25	1,050,891.52	1,177,751.35
2002/03	1,443	1,443	(932.88)	(809.13)	870,265.09	654,691.36	754,821.19
2003/04	1,588	1,588	(787.88)	(664.13)	620,754,89	441,068.66	523,254.74
2004/05	2,137	2,239	(238.88)	(13.13)	57,063.65	172.39	3,136.49
2005/06	2,570	1,801	194.12	(451.13)	37,682.57	203,518.28	-87,573.36
2006/07	3,090	3,371	714.12	1118.87	509,967.37	1,251,870.07	799,007.44
2007/08	3,356	2,573	980.12	320.87	960,635.21	102,957.56	314.491.10
2008/09	3,596	3,775	1220.12	1522.87	1,488,692.81	2,319,133.03	1.858,084.14
Total	∑X=19,007	∑Y=18,017	-	-	∑x² =5864986.88	∑y² =6024302.88	∑xy =5,342,973.09

Mean of budgeted NLABP ($\overline{X}$) = ∑X / No. of Years

= 19,007/8

= 2375.88

Mean of Actual NLABP ($\overline{Y}$) = ∑Y / No. of Years

= 18,017/8

= 2252.13

Standard deviation of Actual and Budgeted NLABP

$$\pm \; = \sqrt{\frac{x \, Z \, \bar{x}}{n} \;\; {}^{2}}$$

$$\pm \text{ of Budgeted amount (x)} = \sqrt{\frac{5864986.88}{8}}$$

$$= \sqrt{733123.36}$$

$$= 856.23$$

$$\pm \text{ of Actual amount (Y):} = \sqrt{\frac{6024302.88}{8}}$$

$$= \sqrt{753037.86}$$

$$= 867.78$$

$$\text{C.V. of (X)} = \frac{\pm \text{ of } x}{\bar{x}} \; X\ 100$$

$$= \frac{856.23}{2375.88} \text{ X } 100$$

$$= 36.03\%$$

C.V. of (Y) = ± of y *X 100*

$$\bar{y}$$

$$= \frac{867.78}{2252.13} \text{ X } 100$$

$$= 38.53\%$$

Correlation (r) = $\frac{\sum xy}{n \pm x \pm y}$

$$= \frac{5342973.09}{8 X 856.23 X 867.78}$$

$$= \frac{5342973.09}{5944154.16}$$

$$= 0.898976$$

APPENDIX 4 **(In Million)**

Fiscal year	Deposits (X)	LABP (Y)	x=(X-X)	y=(Y-$\bar{Y}$)	x^2	y^2	xy
2001/02	3,572	2,585	(3,076.25)	(2,717.25)	9,463,314.06	7,383,447.56	8,358,940.31
2002/03	3,165	2,279	(3,483.25)	(3,023.25)	12,133,030.56	9,140,040.56	10,530,735.56
2003/04	3,144	2,420	(3,504.25)	(2,882.25)	12,279,768.06	8,307,365.06	10,100,124.56
2004/05	5,146	3,561	(1,502.25)	(1,741.25)	2,256,755.06	3,031,951.56	2,615,792.81
2005/06	6,241	4,712	(407.25)	(590.25)	165,852.56	348,395.06	240,379.31
2006/07	8,766	6,656	2,117.75	1,353.75	4,484,865.06	1,832,639.06	2,866,904.06
2007/08	10,068	8,941	3,419.75	3,638.75	11,694,690.06	13,240,501.56	12,443,615.31
2008/09	13,084	11,264	6,435.75	5,961.75	41,418,878.06	35,542,463.06	38,368,332.56
Total	∑X=53,186	∑Y=42,418	-	-	$\sum x^2$ =93,897,153.48	$\sum y^2$ =78,826,803.48	∑xy =85,524,824.48

Mean of Deposits ($\bar{X}$) = ∑X / No. of Years

= 53,186/8

= 6648.25

Mean of LABP ($\bar{Y}$) = ∑Y / No. of Years

= 42,418/8

= 5302.25

Standard deviation of Deposits and LABP

$$\pm \ = \sqrt{\frac{x \, \mathrm{Z} \, \bar{x}}{n}} \ {}^{2}$$

$$\pm \ \text{of deposits (x)} = \sqrt{\frac{93{,}897{,}153.48}{8}}$$

$$= \sqrt{11737144.18}$$

$$= 3{,}425.95$$

$$\pm \ \text{of LABP (y)} = \sqrt{\frac{78826803.48}{8}}$$

$$= \sqrt{9853350.43}$$

$$= 3{,}139.00$$

$$\text{C.V. of (X)} = \pm \ \frac{\text{of } x}{\bar{x}} \ X\ 100$$

$$= \frac{3425.95}{6648.25} \text{ X } 100$$

$$= 51.53\ \%$$

$$\text{C.V. of (Y)} = \pm \ \frac{\text{of y}}{\bar{y}} \ X\ 100$$

$$= \frac{3139.00}{5302.25} \text{ X } 100$$

$= 59.20\ \%$

Correlation (r) $= \frac{\sum xy}{n \pm x \pm y}$

$$= \frac{85524824.48}{8 X 3425.95 X 3139.00}$$

$$= \frac{85524824.48}{86032456.40}$$

$= 0.99409995$

APPENDIX 5 **(In Million)**

Fiscal year	Deposits (X)	Interest Exp (Y)	$x=(X-\bar{X})$	$y=(Y-\bar{Y})$	x^2	y^2	xy
2001/02	3,572	180	(3,076.25)	(94.38)	9,463,314.06	8,907.58	290,336.47
2002/03	3,165	197	(3,483.25)	(77.38)	12,133,030.56	5,987.66	269,533.88
2003/04	3,144	142	(3,504.25)	(132.38)	12,279,768.06	17,524.46	463,892.61
2004/05	5,146	184	(1,502.25)	(90.38)	2,256,755.06	8,168.54	135,773.35
2005/06	6,241	226	(407.25)	(48.38)	165,852.56	2,340.62	19,702.75
2006/07	8,766	340	2,117.75	65.62	4,484,865.06	4,305.98	138,966.75
2007/08	10,068	421	3,419.75	146.62	11,694,690.06	21,497.72	501,403.74
2008/09	13,084	505	6,435.75	230.62	41,418,878.06	53,185.58	1,484,212.66
Total	∑X=53,186	∑Y=2,195	-	-	$\sum x^2$ =93,897,153.48	$\sum y^2$ =121,918.14	∑xy =3,303,822.21

Mean of Deposits ($\bar{X}$) = ∑X / No. of Years

= 53,186/8

= 6,648.25

Mean of Interest Exp ($\bar{Y}$) = ∑Y / No. of Years

= 2,195/8

= 274,38

Standard deviation of Deposits and Interest Exp

$$\pm \; = \sqrt{\frac{x \, \mathrm{Z} \, \bar{x}}{n} \; ^{2}}$$

$$\pm \text{ of deposits (x)} = \sqrt{\frac{93897153.48}{8}}$$

$$= \sqrt{11737144.18}$$

$$= 3425.95$$

$$\pm \text{ of Interest Exp (y)} = \sqrt{\frac{121918.14}{8}}$$

$$= \sqrt{15239.76}$$

$$= 123.44$$

$$\text{C.V. of (X)} = \pm \frac{\text{of } x}{\bar{x}} \; X\,100$$

$$= \frac{3425.95}{6648.25} \; \text{X } 100$$

$$= 51.53\%$$

$$\text{C.V. of (Y)} = \pm \frac{\text{of y}}{\bar{y}} \; X\,100$$

$$= \frac{123.44}{274.38} \; \text{X } 100$$

$= 44.98\%$

$$\text{Correlation (r)} = \frac{\sum xy}{n \pm x \pm y}$$

$$= \frac{3303822.21}{8\,X\,6648.25\,X\,274.38}$$

$$= \frac{3303822.21}{14593174.68}$$

$= 0.226395$

APPENDIX 6 **(In Million)**

Fiscal year	**LABP (X)**	**Interest Income (Y)**	**$x=(X-\bar{X})$**	**$y=(Y-\bar{Y})$**	**x^2**	**y^2**	**xy**
2001/02	2,585	294	(2,717.25)	(198.75)	7,383,447.56	39,501.56	540,053.43
2002/03	2,279	298	(3,023.25)	(134.75)	9,140,040.56	37,927.56	588,777.93
2003/04	2,420	291	(2,882.25)	(201.75)	8,307,365.06	40,703.06	581,493.93
2004/05	3,561	364	(1,741.25)	(118.75)	3,031,951.56	16,576.56	224,185.93
2005/06	4,712	458	(590.25)	(33.75)	348,395.06	1,207.56	20,511.18
2006/07	6,656	580	1,353.75	86.25	1,832,639.06	7,612.56	118,114.68
2007/08	8,941	726	3,638.75	233.25	13,240,501.56	54,405.56	848,738.43
2008/09	11,264	931	5,961.75	438.25	35,542,463.06	192,063.06	2,612,736.93
Total	$\sum X$=42,418	$\sum Y$=3,942	-	-	$\sum x^2$ =78,826,803.48	$\sum y^2$ =389,997.48	$\sum xy$ =5,534,612.44

Mean of LABP ($\bar{X}$) = $\sum X$ / No. of Years

= 42,418/8

= 5302.25

Mean of Interest Income ($\bar{Y}$) = $\sum Y$ / No. of Years

= 3942/8

= 492.75

Standard deviation of LABP and Interest Income

$$\pm = \sqrt{\frac{x\,\mathrm{Z}\,\bar{x}}{n}\;{}^{2}}$$

$$\pm \text{ of LABP (x)} = \sqrt{\frac{78826803.48}{8}}$$

$$= \sqrt{9853350.43}$$

$$= 3{,}139.00$$

$$\pm \text{ of Interest Income (y)} = \sqrt{\frac{389997.48}{8}}$$

$$= \sqrt{48749.68}$$

$$= 220.79$$

$$\text{C.V. of (X)} = \frac{\pm \text{ of } x}{\bar{x}} \; X\ 100$$

$$= \frac{3139.00}{5302.25} \text{ X } 100$$

$$= 59.20\ \%$$

$$\text{C.V. of (Y)} = \frac{\pm \text{ of y}}{\bar{y}} \; X\ 100$$

$$= \frac{220.79}{492.75} \text{ X } 100$$

$= 44.80\ \%$

$$\text{Correlation (r)} = \frac{\sum xy}{n \pm x \pm y}$$

$$= \frac{5534612.44}{8 X 3139 X 492.75}$$

$$= \frac{5534612.44}{12373938}$$

$$= 0.447279$$

APPENDIX 7 **(In Million)**

Fiscal year	Interest Exp (X)	Interest Income (Y)	$x=(X-\overline{X})$	$y=(Y-\overline{Y})$	x^2	y^2	xy
2001/02	180	294	(94.38)	(198.75)	8,907.58	39,501.56	18,559.27
2002/03	197	298	(77.38)	(194.75)	5,987.66	37,927.56	15,069.75
2003/04	142	291	(132.38)	(201.75)	17,524.46	40,703.06	26,407.66
2004/05	184	364	(90.38)	(128.75)	8,168.54	16,576.56	11,636.42
2005/06	226	458	(48.38)	(34.75)	2,340.62	1,207.56	1,651.20
2006/07	340	580	65.62	87.25	4,305.98	7,612.56	5,725.34
2007/08	421	726	146.62	233.25	21,497.72	54,405.56	34,199.11
2007/09	505	931	230.62	438.25	53,185.58	192,063.06	101,069.21
Total	$\sum X$=2,195	$\sum Y$=3,942	-	-	$\sum x^2$ =121,918.14	$\sum y^2$ =389,997.48	$\sum xy$ =214,648.06

Mean of Interest Exp ($\overline{X}$) = $\sum X$ / No. of Years

= 2195/8

= 274.37

Mean of Interest Income ($\overline{Y}$) = $\sum Y$ / No. of Years

= 3942/8

= 492.75

Standard deviation of Interest Income and Interest Exp.

$$\pm \;=\; \sqrt{\quad \frac{x\ \mathrm{Z}\ \bar{x}}{n}\ {}^{2}}$$

$$\pm \ \text{ of Interest Exp (x)} = \sqrt{\frac{121918.14}{8}}$$

$= \sqrt{15239.76}$

$= 123.44$

$$\pm \ \text{ of Interest Income (y)} = \sqrt{\frac{389997.48}{8}}$$

$= \sqrt{48749.68}$

$= 220.79$

C.V. of (X) = $\dfrac{\pm \text{ of } x}{\bar{x}}$ *X 100*

$$= \frac{123.44}{274.37} \text{ X } 100$$

= 44.99 %

C.V. of (Y) = $\dfrac{\pm \text{ of y}}{\bar{y}}$ *X 100*

$$= \frac{220.79}{492.75} \text{ X } 100$$

$= 44.80\ \%$

Correlation (r) $= \frac{\sum xy}{n \pm x \pm y}$

$$= \frac{214648.06}{8 X 123.44 X 220.79}$$

$$= \frac{214648.06}{218034.54}$$

$= 0.984468$

APPENDIX 8 **(In Million)**

Fiscal year	**Other Exp (X)**	**Other Income (Y)**	**x=(X- $\bar{X}$)**	**Y=(Y- $\bar{Y}$)**	**x²**	**y²**	**xy**
2001/02	115	50	(112.00)	(54.37)	12,544.00	2,856.09	6,089.44
2002/03	133	39	(94.00)	(65.37)	8,836.00	4,273.23	6,144.78
2003/04	159	37	(68.00)	(67.37)	4,624.00	4,538.71	4,581.16
2004/05	165	54	(62.00)	(50.37)	3,844.00	2,537.13	3,122.94
2005/06	185	67	(42.00)	(37.37)	1,764.00	1,396.51	1,569.54
2006/07	218	75	(9.00)	(29.37)	81.00	862.59	264.33
2007/08	280	134	53.00	29.63	2,809.00	877.93	1,570.39
2008/09	561	379	334.00	274.63	111,556.00	75,421.63	91,726.42
Total	∑X=1,816	∑Y=835	-	-	∑x² =146,058.00	∑y² =92,863.82	∑xy =115,069.00

Mean of Other Exp ($\bar{X}$) = ∑X / No. of Years

=1,816/8

= 227.00

Mean of Interest Income ($\bar{Y}$) = ∑Y / No. of Years

= 835/8

= 104.37

Standard deviation of Other Income and Other Exp.

$$\pm = \sqrt{\frac{x \, Z \, \bar{x}}{n}}^{\,2}$$

$$\pm \text{ of Other Exp (x)} = \sqrt{\frac{146058.00}{8}}$$

$$= \sqrt{18257.25}$$

$$= 135.11$$

$$\pm \text{ of Other Income (y)} = \sqrt{\frac{92863.82}{8}}$$

$$= \sqrt{11607.97}$$

$$= 107.74$$

$$\text{C.V. of (X)} = \pm \frac{\text{of } x}{\bar{x}} \ X\ 100$$

$$= \frac{135.11}{227.00} \text{ X } 100$$

$$= 59.51\ \%$$

$$\text{C.V. of (Y)} = \pm \frac{\text{of y}}{\bar{y}} \ X\ 100$$

$$= \frac{107.74}{104.37} \text{ X } 100$$

$= 103.22\ \%$

Correlation (r) $= \dfrac{\sum xy}{n \pm x \pm y}$

$$= \frac{115069.00}{8 X 135.11 X 107.74}$$

$$= \frac{115069.00}{116454.01}$$

$= 0.988106$