# CHAPTER I

# INTRODUCTION

## 1.1 General Background

Profit is said to be the soul of any business firm, which is essential to survive and achieve the firm's growth (Adelstein, 2005, p. 54). "Profit is a condition of survival. It is the cost of the future, the cost of staying in business" (Ducker as cited in www.threesigma.edu). Every business organization is established to earn profit. Shareholders' investment in business is insufficient for the long period of time. The firm which has strong profit that can operate smoothly, that can produce and supply the quality goods and services to the customers, can give good return to the shareholders, can pay to the employees and can fulfill other social responsibilities. Profit is not only the measure of a firm's success but also it is an indicator of economic growth of the nation. It has greater contribution to a nation's wealth. Despite its greater importance, profit doesn't just happen in the firm. It must be planned and strive for. Therefore, profit planning is an important managerial activity that the management of every business firm has to perform (Goet, Bhattarai and Gautam, 2062, p. 1.6).

Profit planning system is widely practiced in manufacturing firms, but it is relatively new in non-manufacturing and service firms (http: //www. quinnbiz.co.nz.htm). Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit (www.cambridgepub.edu.). However the concept of profit planning is equally applicable to all firms irrespective of their nature for the proper utilization of scarce resources and achieving their goals. Profit planning is viewed as a process designed to help management to effectively and efficiently perform its activities. Since profit is a signal for the allocation of resources and yardstick for judging managerial efficiency. The fundamental concept of profit planning includes the underlying activities or task that must generally carry out to attain maximum usefulness from profit planning. The mechanics of profit planning involve such activities related to profit planning and performance.

Before one makes an intelligent approach to managerial process of planning, it is important that one understands the management concept, planning and budgets. Planning is the process of developing enterprises, objectives and selecting future courses of action to accomplish them. In other words, planning is the essence of management and all other functions are performed with in the framework of planning. Planning means deciding in advance what is to be done in the future. Planning starts with forecasting and anticipating future events.

Profit planning has the ultimate objectives of attaining the optimum profit. As indicated by money successful applications the most reasonable approach to attaining profit are to plan them as a percentage of capital employed to produce them and achieving the planned percentage (Keller, 1983, p. 338). 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, co-ordination and control and as such, it is the most important administrative device for this purpose.

Profit is every thing for a private firm to operate its activities. Without profit a firm can’t run its business for the further generation. Nowadays banking sector is also curious about preparing profit plan budget. Functional budget only gives their operational plan where as PPC gives idea about profit maximization. Nepal Investment Bank is a leading commercial bank in Nepal. It also needs profit planning like other business firms. In this circumstance, it is essential to study about the profit planning of the commercial bank in Nepal.

## 1.2 Introduction to Commercial Banks

Commercial bank is a type of bank which involves in promoting the commercial activities of the nation by providing various facilities like collecting the deposits, lending the money, remitting, involving in bank guarantee and letter of credit and such other activities. Nepal Rastra Bank Act (2058) defines commercial bank as “Commercial Bank" means a commercial bank established under the prevailing laws (p.1). It gives sense that there is a provision on commercial bank in Nepalese acts. Likewise, A commercial bank is an ordinary banking business consists of changing cash for bank deposits from one person or corporation to another, giving deposits in exchange for bills of exchange government bonds, the secured or unsecured promises of businessman to repay etc (Vaidya, 2001, p. 38).

## 1.3 Commercial Banks in Nepal

| SN | Name | Operation | Paid of capital (*in million)* |
|---|---|---|---|
| 1 | Nepal Bank Limited | 15 November 1937 | 280.4 |
| 2 | Rastriya Banijya Bank | 23 Jan 1966 | 1172.3 |
| 3 | Agricultural Development Bank | 16 March 1968 | 10777.3 |
| 4 | NABIL Bank Ltd | 16 July1984 | 965.8 |
| 5 | Nepal Investment Bank Ltd | 27 Feb 1986 | 2407.1 |
| 6 | Standard Chartered Bank Nepal Ltd | 30 Jan 1987 | 932 |
| 7 | Himalayan Bank Ltd | 18 Jan | 1216.2 |
| 8 | Nepal SBI Bank Ltd | 7 July 1993 | 874.5 |
| 9 | Nepal Bangladesh Bank | 5 Jun 1993 | 1822.7 |
| 10 | Everest Bank Ltd | 18 Oct 1994 | 838.8 |
| 11 | Bank of Kathmandu Ltd | 12 March 1995 | 844.4 |
| 12 | Nepal Credit and Commerce Ltd | 14 Oct 1996 | 1399.5 |
| 13 | Lumbini Bank Ltd | 17 July 1998 | 1015.3 |
| 14 | Nepal Industrial and Commercial Bank | 21 July 1998 | 1140.5 |
| 15 | Machapuchhre Bank Ltd | 3 Oct 2000 | 1479.1 |
| 16 | Kumari Bank Ltd | 3 April 2001 | 1078.3 |
| 17 | Laxmi Bank Ltd | 3 April 2003 | 1098.1 |
| 18 | Siddhartha Bank Ltd | 24 December 2002 | 952.2 |
| 19 | Gobal Bank Ltd | 2 Jan 2007 | 1000 |
| 20 | Citizens Bank International | 21 June 2007 | 1000 |
| 21 | Prime Bank Ltd | 24 Sept 2007 | 700 |
| 22 | Bank of Asia Nepal Ltd | 12 October 2007 | 1000 |
| 23 | Sunrise Bank Ltd | 12 October 2007 | 875 |
| 24 | DCBL Bank Ltd | 25 May 2008 | 1107.5 |
| 25 | NMB Bank Ltd | 2 May 2008 | 1100 |
| 26 | Kist Bank Ltd | 7 May 2009 | 2000 |
| 27 | Janta Bank Nepal Ltd | 30 April 2010 | |
| 28 | Mega Bank Ltd | 23 July 2010 | |

*Source: NRB, 2010*

## 1.4 Statement of the Problem

Establishing profit objectives is an important part of planning for profit organizations (Adelstein, 2005, p. 56). A comprehensive profit planning and controlling is a systematic and formularized approach for stating and communicating the firm's expectation and accomplishing management in such a way to maximize the use of a profit plan and to achieve the maximum benefits from the resources available to an organization over a particular span of time. It serves as tools of management control (Goet, Bhattarai and Gautam, 2062, p. 1.6). Profit is an essential cost of business activity and must be planned and managed just like other costs (Adelstein, 2005, p. 58). Successful business performance requires balancing costs and revenues as: Costs of the future (profit) + current costs (expenses) = Average revenue per unit sold x sales volume (net revenue). A business must earn sufficient profit to maintain access to the capital markets for the investment it needs to grow and prosper. This profit can be difficult to determine but it shouldn't be less than the business' cost of capital. Cost of capital is the cost the business must pay for its debt and equity financing. These minimum profit requirements enable the business sustain its current operations and maintain its wealth producing potential. A profit plan is required for additional profit to fund market and/or product research and development or strategic acquisitions. These profits come from the surplus generated from business operations or operating profit (www.threesigma.edu., n. d.).

Profit planning system provides a tool for effective supervision of individual operation and practical administration of a business as a whole. In our country where the industrialization is still in its infancy and therefore, the concept of profit planning has not even being familiarized in the most of the business firms. Commercial banks play vital role in economic growth of the nation. As being a commercial bank it must make profit out of its operation for its survival and growth.

This study has tried to analyze and examine the profit planning and control of a commercial bank i.e. Nepal Investment Bank Ltd. Furthermore the study has tried to answer the following research questions:

i. Does Nepal Investment Bank have appropriate profit planning system?
ii. Does Bank mobilize the deposit and other resources at optimum cost?
iii. Does bank deploy the resources generating satisfactory yield?
iv. Does the bank giving proper attention toward non-funded business activities by generating satisfactory amount of other income?

## 1.5 Objectives of the Study

The main objective of the study is to explore the profit planning system of Nepal Investment Bank which is a commercial bank of Nepal. There are other sub-objectives of the study as:

1. To highlight the current profit planning practices of the Bank.
2. To explore the deposit mobilization status and variance of budgeted and actual achievement.
3. To explore the resources deployment practices of the bank.
4. To study the non-funded activities of the bank.
5. To study the growth of the business of the bank over the period.

## 1.6 Significance of the Study

Profit planning is very much essential tool for better management and control. It is applicable in every sort of business organization. The research study will be concerned with the profit planning in commercial bank with a study of NIBL the measure objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as the overall financial performance of an organization by the help of best utilization of resources. This research will be helpful to the business organization who wants to make profit planning, it will also be useful to the student of management who studies the profit planning in their course and the general people who wants to know about profit planning in the organization.

## 1.7 Limitations of the Study

This study is concerned to profit planning of NIBL. Beyond the resource and time constraints followings are some of the hindrances that may occur in course of conducting research.

- This study is primarily based on secondary data of five fiscal years.
- Only the profit planning aspect of the bank is analyzed.
- Only selected financial and statistical tools have been employed for analysis purpose.
- The analysis is limited to NIBL, so the finding may not be applicable to other banks.

## 1.8 Scheme of the Report

The research contained five chapters. Besides the main five chapters the approval sheet, acknowledgement, table of content, list of figures, list of tables, list of abbreviations are included in the preliminary part. Bibliography and annexes are included in the last part of the report. The main five chapters of the research consist as:

**Chapter One**

This chapter consists with the introduction, problem statement, purpose, research questions, rationale, limitations and chapter outlines of the research. The chapter sets the scene by putting the study in the context of current issues and challenges of Nepalese education system.

**Chapter Two**

The second chapter consists with literature review. The past literature on profit planning of bank is presented in this chapter which gives deep knowledge about the study. So it will be helpful to analyze the data and to conclude the research. This includes a thorough exposition of the meaning of profit planning and different variables and theories related to this concept.

**Chapter Three**

The third chapter gives attention on the design and research methodology employed in the study. It includes the research design, research approach, preparations for data collection, data collection tools that data collection exercises as well as the data analysis.

**Chapter Four**

This chapter is based on presentation, interpretation and analysis of data by using the appropriate tools of data analysis.

**Chapter Five**

This chapter presents the findings, conclusions and recommendation of the research. Findings and conclusions will be based on data presentation and analysis in chapter four.

# CHAPTER II

# LITERATURE REVIEW

This chapter provides the deep understanding on profit planning through the deep study of related literature made by different previous researchers and writers in the regarding field. Literature review provides the knowledge and information to the researcher about the related study. Effective research is based on past knowledge, this step helps to eliminate the duplication of what has been done and it shows substantial agreement (Best and Khan, 2005, p. 37). Present conflicting conclusions help to sharpen and define understanding of existing knowledge in the problem area, background for the research project and make the reader aware of the status of the issue (ibid.).

## 2.1 Development of Banks in Nepal

Like many other countries, goldsmiths, merchants and money lenders were the ancient bankers of Nepal. Tejarath Adda established in 1880 during the tenure of the then Prime Minister Ranoddip Singh was the first step towards the institutional development of banking in Nepal (Dahal and Shah, 2010, p. 93). Some historians say Kausi Tosha Khana established during the time of King Prithvi Narayan Shah (1723 AD - 1755 AD) is the first banking institution but very little is known about it. Tejarath Adda did not collect deposits from the public but gave loans to public against the security of gold and silver and to the government employees against the security of their salary. Since, the interest rate of Tejarath Adda was just 5%, beneficiaries were very much relieved of exorbitant interest rate being charged by the traditional bankers. Tejarath Adda however had a narrow reach because of just few branches and resources crunch it used to face due to not collecting deposits from the public. Thus, the larger section of deficit units of the society had no choice but to knock the doors of the traditional bankers to cover their deficit and the surplus units who were not traditional bankers had the Hobson's choice of keeping their surplus money in a large clay jar exposing themselves to the risk of theft and erosion in the value of money (Dahal and Shah, 2010, p. 94).

Savers and users of the society were always looking for an institution which offers relatively safe, convenient, liquid and accessible securities and at the same time accepts relatively risky, illiquid, inconvenient, long term and large denomination securities offered by the borrower. Such an intermediation encourages savings and entrepreneurship in the society by bringing together and resolving fundamentally variant financing requirement of households, business and governments (Dahal and Shah, 2010, p. 94).

Moreover, Nepal had gradually opened to the international trade and then Rana Rulers favored by British India wanted to keep their money in Nepalese banks instead of Indian banks because the independence movement against British Rule was gaining momentum in India. All these were the backgrounds for establishment of a modern bank. Banking in modern sense started with the inception of Nepal Bank Limited (NBL) on 15 November 1937 under Nepal Bank Act, 1937 though in Europe modern banks were set up in the 12th century itself. The preamble of NBL Act 1937 states the objective behind establishment of NBL as follows:

In the absence of any bank in Nepal, the economic progress of the country was being hampered and causing inconvenience to the people and therefore with the objective of fulfilling that need by providing services for the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation.

Nepal Bank had an extraordinary responsibility of attracting people towards banking sector from pre-dominant money lenders' net and of expanding banking services. Being a commercial bank, it was natural that NBL paid more attention to profit generating business and preferred opening branches at urban centers (Dahal and Dahal, 2002, p. 10-11). The government's realization of need for expanding banking services to the nook and corner of the country, ending dual currency system and stabilizing highly volatile exchange rate gave birth to Nepal Rastra Bank (NRB) on 26th April 1956 as a central Bank.

Whereas it is expedient to ensure proper management of the issuance of Nepalese currency notes, to make arrangement for the circulation of Nepalese currency throughout the kingdom and to stabilize the exchange rates of the Nepalese currency in order to maintain comfort and economic interests of the general public.

Since then, NRB has been working as central bank and has contributed to the growth of various types of financial institutions across the country in addition to stabilizing exchange rates and ensuring circulation of Nepalese currency throughout the country. As the need of development bank of the country was felt, the government converted Industrial Development Centre (IDC) set up in 1957 to Nepal Industrial Development Corporation (NIDC) in 1959 at the initiative of NRB. Likewise, another commercial bank named Rastriya Banijya Bank (RBB) was set up on 23 January 1966 as a fully government owned commercial bank. In the same way in 1968, Agricultural Development Bank was established to provide finance for introducing modern agricultural techniques so that agricultural productivity could be enhanced. The government owned banks were not sufficient to develop the nation through banking service to the people. So, the private sector's banking service was realized. In 12 July 1984, Nepal Arab Bank limited was established as a first foreign joint venture bank. It was also the first private sector bank in Nepal.

After restoration of democracy in 1990, the numbers of financial institutions have established and operated. Now there are many banks and financial institution in Nepal. But almost of all are centralized in the city center. Now there are 27 commercial banks, 74 development banks, 78 finance companies, 16 NRB licensed cooperatives and NRB licensed NGOs are working in the sector of banking (Dahal and Shah, 2010, p. 96).

## 2.2 Commercial Banks

According to Commercial Bank Act (2031), a commercial bank is a bank which exchanges money accepts deposit, advances, and loans and performs other commercial transaction and which is not specially established with the objectives of co-operative, agriculture, industrial or any other of such kind of specified purposes. The banking industry offers a wide range of services encompassing the needs of public of different walks of life. A bank may not render quality service if it carries out all the functions. Hence, different types of banks emerged in the banking industry concentrating on a special sector. This is the age of specialization. As per commercial Bank Act 2031 B. S., "A commercial bank means the bank which deals in exchanging currency accepting deposit, giving loans and doing commercial transactions." Bank of vanice set up in 1157 is the first commercial bank. In the beginning, commercial bank's functions were confined to accepting deposit and giving loans. However, their functions have now, increased manifold. Commercial banks are found operating throughout the world. Nepal Bank Limited established on 30th Kartik 1994 BS, is the first commercial bank in Nepal. There are many functions of commercial banks that are as follows:

- Accepting various types of deposits
- Lending money in various productive sectors
- Letter of Credit
- Guarantee
- Remittance
- Bills and
- Others

## 2.3 Financial Institutions

Financial institutions are said to be the bridge between the savers and users. In other words, they collect scattered deposits and give loans to maximize their wealth. According to NRB Act, (2058) Financial Institution" means a financial institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette (p. 2).

Financial institutions are interposed between the ultimate borrowers and lenders to acquire the primary securities of the borrowers and provide other securities for the portfolio of lenders (Gurley and Shaw, as cited in Dahal and Dahal, 2002, p. 168). "Financial Institution" means an institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette. (NRB Act 2002) "Banking institution is inevitable for resource mobilization and all-round development of the country. It is a resource for economic development; it maintains economic confidence of various segments and also it extends credit to people (Gryuinskhi, 1993 as cited in Khatiwada, 2010, p. 15). In a board sense, financial institutions include all the institutions engaged in the business of financial intermediation between depositors and borrowers. These financial institutions can be classified into:

1. Banking Financial Institutions

   Commercial Bank, Development Bank,

2. Non-Banking Financial Institutions

   Finance companies, Co-operatives, Micro Finance Companies. Companies entitled to collect saving, postal savings; NGOs authorized for limited banking etc are examples of non banking financial institutions (Dahal and Dahal, 2002, p. 168).

Thus, a financial intermediary, a bank, which may obtain fund from its own capital resources, by accepting deposits (usually from fixed deposit) or even by borrowing from other institutions and which it on lends for a variety of purpose especially to finance hire purchase contracts but also leasing.

## 2.4 An Overview of Nepal Investment Bank

According to Annual report of NIBL, 2006/07 Nepal Investment Bank Ltd. (NIBL), previously known as Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French Companies. The French partner (holding 50% capital) was Credit Agriocle Indosuez, a subsidiary of one of the largest banking group in the world. With the decision of Credit Agriocle Indosuez to divest, a group of companies, comprising bankers, professionals, industrialists and businesspersons, in April, 2002, acquired 50% of the holdings of Credit Agricole Indosuez in Nepal Indosuez Bank. The name of the bank was thereafter changed to Nepal Investment Bank Ltd. upon approval of the Bank’s Annual General Meeting, Nepal Rastra Bank and Company Register Office effective from 12 June, 2002. The shareholding structure of the bank comprises:

- A group of companies holding -50% of the capital
- Rastriya Banijya Bank holding- 15% of the capital

- Rastriya Beema Sansthan holding-15% of the capital
- General public holding-20% of the capital

### 2.4.1 Vision of the Bank

The vision of the bank is “to be the most prefer provider of financial services in Nepal”

### 2.4.2 Mission Statement of the Bank

The annual report (2006/07) of the bank presents the mission of the bank as “To be the leading Nepali bank, delivering world class service through a blend of technology and visionary management in partnership with its committed staff, to achieve sound financial health with sustainable value addition to its stakeholders. The bank is committed to this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance.”

### 2.4.3 Strategic Objectives of the Bank (NIBL)

According to annual report (2008/09) the strategic objectives of the bank are as:

- To develop a customer oriented service culture with special emphasis on customer care and convenience
- To increase our market share by following a disciplined growth strategy
- To leverage our technology platform and pen scalable systems to achieve cost-effective operations, efficient MIS, improved delivery capability and high service standards
- To develop innovative products and services that attracts our targeted customers and market segments
- To continue to develop products and services that reduce our cost of funds
- To maintain a high quality assets portfolio to achieve strong and sustainable returns and to continuously build shareholders’ value
- To explore new avenues for growth and profitability

### 2.4.4 Core Values and Ethical Principles of the Bank

According to annual report (2008/09) the core values and ethical principles of the bank are as follows:

- Customer Focus: At NIBL, our prime focus is to perfect our customer service. Customers are our first priority and driving force. We wish to gain customer confidence and be their trusted partner
- Quality: We believe a quality service experience is a paramount to our customers and we are strongly committed in fulfilling this ideal
- Honesty and Integrity: We ensure the highest level of integrity to our customer creating an ongoing relationship of trust and confidence. We treat our customers with honesty, fairness and respect.
- Belief in our people: We recognize that employees are our most valuable asset and our competitive strength. We respect the worth and dignity of individual employees who devote their careers for the progress of the Bank
- Teamwork: We are a firm believer in team work and feel that loyal and motivate teams can produce extraordinary results. We are drived by a performance culture where recognition and rewards are based on individual merit and demonstrated track record.
- Good Corporate Governance: Effective Corporate Governance procedures are essential to achieve and maintain public trust and confidence in any company, more so in a banking company. At NIBL, we are committed in following best practices resulting in good corporate governance.
- Corporate Social Responsibility: As a responsible corporate citizen, we consider it important to act in a responsible manner towards the environment and society. Our commitment has always been to behave ethically and contribute towards the improvement of quality of life of our people, the community and greatly the society, of which we are an integral part.

### 2.4.5 Basel II Criteria maintain by the Bank

The bank believes in prudence and transparency in our day to day operations and as such has worked on implementing sound policies in Risk Management practices. Two key areas where NIBL has actively deviated from industry norms are in developing a high capital base, of Rs 1.2 billion which is far above the financial industry average and the highest among our competitors, and in actively reducing our exposure to the Real Estate and Housing Market. Basel II builds significantly on Basel I by increasing the sensitivity of capital to key bank risks. In addition, Basel II recognizes that banks can face a multitude of risks, which includes traditional risks associated with financial services, the day-to-day risks of operating a business, as well as the risks associated with the ups and downs of local and international economies.

NIBL has taken stringent steps towards implementing the framework developed by the Nepal Rastra Bank NRB l from July 2008 which mandates a capital adequacy requirement based on international practices with an appropriate level of customization based on domestic state of market developments. NIBL has taken steps to maintain a level of capital that: i) adequate to protect our depositors and creditors, ii) is commensurate with the risk associated activities and profile of the commercial bank, iii) Promotes public confidence in our bank. BASEL II framework which consists of three pillars: Capital Requirement, Supervisory Review Process and Market discipline which is more practical and risk oriented. Basel II proposes a significant refinement of regulatory and supervisory practice and emphasizes attention to risk management practices, pre-requisites for the effective implementation of this framework. It is dependent on various factors which the bank has taken serious measures to adopt such as:

i. Implementation of Basel Core Principles for effective Banking Supervision

ii. Adoption of the sound practices for the management of Operational Risk

iii. Formulation and adoption of comprehensive risk management policy (NIBL Annual Report, 2007/08, p. 37).

### 2.4.6 Corporate Governance in NIBL

The current economic crisis which stemmed partly from reckless risk taking from major financial institutions in the United States as well as corporate scandals such as Satyam Computer Services has once again underscored the need for good corporate governance. AT NIBL, we are firmly committed to the highest standards of governance. The Board of Directors ensures that the activities of the Bank are always conducted with the highest standards and in the best interests of its stakeholders. The Board of Directors continues to ensure that the Bank conducts itself as a model corporate citizen by specifying corporate values for the Bank and stipulating acode of Conduct and Ethics for the employees to ensure that the employees maintain their dignity and integrity and build customer confidence. There are several Board constituted committees, each with a defined scope of work and terms of reference. These committees are responsible for providing independent and expert advice on the subjects assigned. We have placed independent directors in key committees such as audit in order to highlight our transparency (NIBL Annual Report, 2007/08, p. 37).

### 2.4.7 NIBL in Corporate Social Responsibility

Every corporate house is now required to involve in some social responsibility programs annually. Social responsibility is the obligation of the bank where it should help to the society on the behalf of conducting its business activities and earning profit.

NIBL is committed to building and maintaining a strong relationship between the Bank and the larger community. In order to do so the bank invests in various projects that promote our heritage and the arts, in education & health initiatives, various NGO programs, sports as well as in supporting the less privileged sections of our society. Each year, NIBL sponsors a diverse range of programs that encourage a strong corporate culture of giving in the name of charity and responsibility to our community and nation. Various sectors has been supported by the bank such as: Pashupati Briddashram, Pahad Association, Friends of Bagmati, National Trust for Nature, Conservation, Shree Sai Sewa Organization, Rural Women's Development & Unity Centre (RUWDUC), Army's Wives Association 24$^{th}$, Anniversary, Nepal China Chamber of Commerce and Industry, Hospital and Rehabilitation, Centre for Disabled Children, St. Xavier's School Orphan Children, Pratiman – Neema Memorial, Cancer Awareness, Kathmandu College of Management, Nepalese Young Entrepreneurs,Forum, Rato Bangala School and Budhanilkantha School, Triyog High School, Charity Golf – Spinal Injury, NIBL National Tennis Championship, 2064 – 65, Judo Association, Nepal Boxing Association, Nepal Golf Association, Miss Little Newa – First, Runner Up, Himalayan VW Beetle Rally, Khadi Fashion Show, Alliance Francaise, Nepal Britain Society, Lions Club of Narayangarh, European Union and Nepal Carpet Export, Association 4th AGM. The bank has been provided some amount to such organizations to conduct the social welfare programs (NIBL Annual Report, 2007/08, p. 44-49).

## 2.5 Major Financial Policies of Nepal

The financial sector policies in the least developed countries have undergone drastic changes during the last three decades and Nepal is not an exception. The elimination of credit control, deregulation of interest and exchange rate, easy entry of banks and financial institutions into the financial system, privatization of financial and non financial institution, autonomy of NRB etc are the important dimension of the financial liberalization in Nepal. Monetary policy, banking policy, credit policy and the interest rate policy are the major financial policies. The NRB has a major role to play in the formulation, implementation monitoring and supervision of such policies.

### a. Monetary Policy

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In the 1970‟s liquidity requirement, credit limits, / ceiling and directed credit programmers were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. Effective exercise of cash reserve ratio requirement and bank rate as an active monetary policy tools evolved even later – since late 1990s. The basic objective of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting external trade, and attaining healthy balance of payment of the country. The NRB is the apex body assigned the task of designing and operating monetary policy. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output.

So, monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2007/08. The few main features of new monetary policy are as follows: Primarily focused towards curbing acceleration in the pace of inflation. Economic growth targeted at 5% on the basis of Budget of 2007/08. Average inflation based on consumer price index estimated to be 5.5% compared to that of 6.4% in 2006/07. Maintaining financial sector stability and to increase the financial intermediation. It is addressing the fluctuation in short-term interest rates and the risks through open market operations.

**b. Banking Policy**

- The NRB has issued its new licensing policy for the establishment of commercial banks, finance companies and development banks on 1st Shrawan 2063.

The main provisions contained in the new licensing policy are as follows:

- Change in minimum capital requirement of the financial institutions while starting the financial institutions.
- List of documents to be presented for carrying out the financial transactions in Nepal.
- Minimum requirements of the directors and promoters. Commitment by the prospective directors of the proposed financial institutions with Nepal Rastra Bank for compliance of the entire rules and regulation formed by Nepal Rastra Bank.
- Probable conditions where NRB may reject the application for establishment of the financial institution.
- Provisions regarding the expansion of business of the financial institutions.
- Provisions regarding the preliminary expenses.
- Formats of the applications and commitments.

**c. Credit Policy**

Often monetary policy and credit policy are interpreted in the same way. Nepal Rastra Bank has also been exercising monetary and credit policies through the same manner. But monetary and credit policies are not exactly the same. Monetary policy is defined as a policy affecting changes in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. Money differs from credit because money is the liability of the banking system whereas credit is an asset. In the past, NRB has introduced the priority sector lending programmed. Under this programmed all the banks were required to extend certain percentage of their lending to the prescribed priority sector. However, this priority sector-lending requirement is now phased out. With an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund based as well as non-fund based. The maximum amount of und based as well as non-fund based lending to a single borrower has been linked with the core capital of the institution.

**d. Interest Rate Policy**

Interest is paid for the sacrifice made by the income holder by differing consumption for the time being and imparting with liquidity and to reward the income holder for making savings. There exists a wide array of interest rate in the economy. This is either because of wider verities of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with money supply and credit. In the process of financial system liberalization, initiatives to deregulate interest rate structure in Nepal were taken since Mid 1980s. The complete liberalization of the interest rate structure, however, took place in 1989 only whereby the commercial banks were set free to determine the deposit and lending rates. However, the existing number of commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One noteworthy situation of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the Nepal Rastra Bank. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities (Source of Financial policy is: Feasibility study report of purposed Civic Development Bank, 2008, p. 27 as cited in Khatiwada, 2010, p. 17-18).

## 2.6 Defining Profit

The basic concept of profit planning involves the activities, which must be generally carried out to attach maximum usefulness from the machinations and obtaining feedbacks. Profit is the ultimate goal of every business house. They involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better managerial skills. So profit is the planned and controlled output of management. By element, profit is the difference of revenue and cost. Profit plan, thus refers to the planning of revenue and planning of cost (Goet, Bhattarai and Gautam, 2062, p. 1.1).

Likewise, Uprety, Adhikari, Kharel and Poudel (2007) define profit as: Profit refers different things to different people. The word profit has different meaning to businessmen, accountants, tax collectors, workers and economists and it is often used in a loose polemical sense that buries its real significance. In a ordinary sense profit is regulated as income accruing to the equity holders, in the same sense as wages accrue to the labor rent accrues to the owners of rentable assets and interest accrues to the money investors. To an accountant, profit means the excess of revenue over all paid-out costs including both manufacturing and overhead expenses. It is more or less the same as net profit (p. 194).

Further they explain the profit in practical aspect as: For all practical purposes, profit or business income means profit in accountancy sense plus non-allowable expenses. Economists' concept of profit is of 'pure profit', also called economic profit or just profit. Pure profit is a return over and above the opportunity cost, i.e. the income, which is businessman, might expect form the second best alternative use of his resources.

Likewise, Kulkarni (1981) describes accounting and economic concept of profit, profit is the residual of sales revenue minus accounting cost of doing business. "Profit in the accounting sense tends to become a long term objective, which measures not only the success of a product but also of the development of the market for it". But economic concept of profit is different from accounting, to economist. Profit is business profit minus the implicit cost (p. 187).

Joshi (2054) presents: it is a reward for any organization. In simple sense profit is a surplus over the expenditure for any kind of business firm. Business and non-business organization both has peculiar objectives and goals. To achieve such objectives, the firm should run successfully. Profit is needed to run the business successfully. Without profit these organization can't run for long period. Although in modern days many alternative objective of firm has been citied. No body has been able to completely wipe out the profit maximizing objectives and objective of earning reasonable rate of profit. Profits are the main test of individual firm's performance (p. 154).

Definition profit according to Oxford dictionary is: "the money that you make in business or by selling things, especially after paying the cost involved. The company made a healthy profit on the deal (p. 1205). It shows profit is the condition of surplus. Profit is positive outcome after selling of goods and services. There is no uniform agreement on the meaning of word profit. The meaning of profit from the accountants' perspective is differs from profit form the economists perspective. While the accountants' profit value model contains measurement of a high degree of certainty, it does not represent the profit value model of the stockholder. On the other hand the economists profit value model is quite close to that of the investor but nearly all measurement contains uncertainty.

There are two crucial factors first any definition of profit is an extricable linked to a definition of value. Second, since there are alternative definition of profit each depending on a definition of value the manager in determining his profit target should attempt to select a definition of value which is closely tied to that of stock holders. By doing so, manager can not direct his planning towards maintaining the market value of the stock. For the manager, then the crux of the issue lies in discerning his stockholders valuation models (Gray and Johnstore, 1989, p. 59-60).

Hence, profit is a backbone of any business organization. It helps organization to stand freely and sustain for a long period. Profit measure a success of any business and if the business is in profit it can easily acquire any type of loan and capital to expand its business. So profit is the very important aspect of any business organization.

## 2.7 Concept of Planning

Planning is a decision making activity requiring the process of ascertaining objectives and deciding on activities to attain these objectives. It is also a process of preparing for change and coping with uncertainty by formulating future course of action. The basis purpose of planning is to reduce the risk of uncertainties and to initiate a coordinated effort within the organization for the purpose of organizational success.

Likewise, Planning means deciding in advance what needs to be done, who will do it and how and when. It bridges the gap between where we are now and where we want to go. As the most basic of all management functions, it helps to set objectives and chart out a specific course of actions in order to achieve goals (Afful, 2002, p. 79).

Adelstein (2005) defines planning as: Humans are purposive creatures, constantly trying to comprehend the world and manipulate it in their own interests. In this sense, planning is universal, a fact of life. Purposive action requires visualization and will, the ability to imagine a specific future and then intend that it actually come about. People have these powers, and undertake hundreds of purposive acts every day, from simple, almost automatic acts like getting out of bed to complex ones like getting married. Though we often speak of planning as something done by abstract collectives, the purpose and cognition it demands make it clear that planning is done by people, not by groups or organizations as such. So let me define individual planning as what men and women do when they are free to pursue their own purposes, and central planning as the subordination, by whatever means and to whatever extent, of one or more individuals' purposes to those of the central planner. Then, the question posed by the opposition of spontaneous order to central planning is not whether there will be planning or not, but rather who will plan, and for whom (p. 62).

Hence, planning is a human activity. It selects future course of action from among the alternatives. It serves as a guide for allocating resources in a coordinated way. It specifies ways and means of implementing actions. It is the prime instrument for directing efforts. It provides targets which serves as standards for controlling performance. It takes organization to where it wants to be. Planning is primary function of management.

Managers must plan before doing other activities of management. Planning helps improve performance and achieve goals. It is a systematic process. It anticipates future opportunities and threats. It decides in the present about what is to be done in the future. It gives direction to the organization. Planning is goal focused. It not only sets goal but also selects actions to achieve them.

Planning involves decisions at all levels of management. It coordinates various activities through decisions. It is directed toward efficiency at all levels of management. Planning is essential to reduce uncertainty, to focus organizational goals, to enhance better coordination, to promote efficiency, to adapt the organization in changing environment, to foster the commitment and to control the activities of organization.

## 2.8 Profit Planning

We can define profit plan from above definitions of profit and planning. It refers the planning of profit where profit is the benefit or surplus on selling of goods and services by the business organization. Simply, it is the predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet the investment and profit requirement.

Profit planning can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management's plan throughout the organization, allocates resources, and coordinates activities (http://www.accountingfor management.com, n.d).

Profit plan refers to the planning of revenue and planning of cost. Comprehensive profit planning and control is a new term in the literature of business. Though it is a new term, it is not a new concept in management. The other terms, which can be used in same context, are comprehensive budgeting, managerial budgeting and simply budgeting. The profit planning and control can be defined as process of management that enhances the efficiency of management (Goet, Bhattarai and Gautam, 2062, p. 1.1).

Profit plan is a short term financial plan. It is an action plan to guide managers in achieving objectives of a firm. It is a comprehensive and coordinated plan, expressed in financial terms for the operations and resources of an enterprise for some specific period in the future (Pandey, 1999, p. 235-236).

In business, profit does not just happen. It should be managed or planned. When management makes plan to earn profit for a certain period of time it is called profit planning.

It is most important aspect for any business enterprises. The concept of profit planning set firmly upon the planning theory the primary success factor in an enterprise is the competence of management to plan and to control enterprise activities. Profit planning system especially familiar to business organization but the practicability of this concept depends on the size of the business. The most vital factor on profit planning procedures is right information at the right time presented and formulated in a way that, it is easily compared and followed. Profit planning is an overall part of process of an organization and it's an area in which the finance function plays prior role. It covers definite period of times and formulate the planning decision management. It considers all activities and operation of an organization. According to Goet, Bhattarai and Gautam (2062) profit planning involves development and application of:

- Broad and long range objectives for the enterprises,
- Specification of goals
- Long range profit plan in broad terms
- Tactical short range profit plan detailed by assigned responsibilities
- A system of periodic performance reports detailed by assigned responsibilities
- Control system
- Follow up procedures

### 2.8.1 Uses of Profit Planning

The uses of profit planning are as follows:

i. Evaluating operations

Each time you prepare an income statement, actual sales and costs are compared with those you projected in your original profit plan. This permits detection of areas of unsatisfactory performance so that corrective action can be taken.

ii. Determining the need for additional resources such as facilities or personnel

For example, the profit plan may show that a sharp increase in expected sales will overload the company's billing personnel. A decision can then be made to add additional invoicing personnel, to retain an EDP service, or to pursue some other alternative.

iii. Planning purchasing requirements

The volume of expected sales may be more than the business' usual suppliers can handle or expected sales may be sufficient to permit taking advantage of quantity discounts. In either case, advance knowledge of purchasing requirements will permit taking advantage of cost savings and ensure that purchased goods are readily available when needed.

iv. Anticipating any additional financing needs

With planning, the search for needed funds can begin as early as possible. In this way, financial crises are avoided and financing can be arranged on more favorable terms (http://www.villagemall.com).

### 2.8.2 Process of Profit Planning and Control

A profit planning and control includes more than the traditional idea of a periodic or master budget. The planning process should involve periodic, consistent and in-depth re-planning so that all aspect of operations is carefully re-examined and revaluated. The following are some steps of profit planning:

i. Identification and Evaluation of External Variables

The most important step on the profit planning and control process is to identify the relevant variables. Relevant variables mean those variables, which will have direct and significant impact on an enterprise. Different variables have different impact according to their nature and nature of the product, matter, socio-economic and geo-political environment of enterprises. These variables can be divided as controllable and uncontrollable variables. This phase of planning focuses on identifying and evaluating the effects of external variables. So the management planning must focus on how to manipulate the controllable variables and how to work with the non controllable variables. In this phase identification involves on separation of variables as controllable and non controllable where as evaluation also includes an evaluation of present strength and weakness of the enterprise.

ii. Development of Broad Objective of Enterprise

It 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. The statement of broad objectives should express the mission, vision and ethical character of the enterprise the statement of broad objectives normally should not specify quantitative goals rather it should be narrative expression of purpose objective and philosophical character of business. It should represent the basic foundation to develop and positively reinforce pride in the company by management, employees' owner, customer and other enterprises that have commercial contact with it. It should be designed for wide dissemination and should be believable, which means that in the long run the company's action must be in harmony with statement.

iii. Development of Specific Goal

Development of specific goals 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 goals should be developed by executive management as the second component of the substantive plan for the upcoming year. Executive management should act as leadership while developing such goals to formulate realistic and clearly articulated framework within which operations will be conducted toward common goals. It also provides a basis for performance measurement. Such specific goals must be developed for both the strategic long range and tactical short range plans. These specific goals in large measure are qualified and specified for each major sub-division of the entrepreneur. They must realistic goals as opposed to more hopes or guesses.

iv. Development and Evaluation of Company Strategies

Companies' strategies are trust, ways and tactics that will be used to attain planed objective and goals. Purpose of developing and disseminating enterprises strategies is to find the best alternatives for attaining the planned broad objectives and specific goals. While developing basic strategies executive management must focus on identifying of the critical areas that influence the long range success of enterprise. Strategy formulation is continual concern to executive management, better managed companies have found that periodic reassessment of the strategies is essential in light of a careful analysis of all relevant variables and their probable future impact on the enterprise.

v. Executive Management Planning

This planning must be communicated all level of management to participate equally in the development of strategic and tactical profit plan for the upcoming year. Executive leadership is necessary in developing and articulating this planning foundation and formulation of relevant strategies. At this phase in profit planning process, the formulation has been established to articulate the broad and specific objectives of the enterprise and the strategies that facilitate their attainment.

vi. Preparation and Evaluation of Project Plan

Project plans encompass such items as plan for improvement of present products new and expanded physical facilities, entrance into new industries, exist from products and industries, new technology and other major activities that can be separately identified for purpose of planning. The project plan encompasses variable time horizons because each project has a unique time dimension.

In planning for a project the time span considered must normally be the anticipated life span of the project. During the formal planning cycle, management must evaluate and decide upon the plan status of each project in process and select any new project to be initiated during time dimension covered by upcoming strategic and tactical project plan. Preparation and evaluation of current and future project plans are essential on a formal basis as one of the profit planning phase.

vii. Development of Strategic and Tactical Profit Plan

When the managers of various responsibility centers in the enterprise receive the executive management planning instructions and project plan they can begin intensive activities to develop their respective strategic and tactical project plans. The executive management or chief financial executive will develop the strategic and tactical profit plans. Assuming participatory planning and receipt of the executive management instructions, the manager of each responsibility center will immediately initiative activities within his or her responsibility center to develop strategic long range profit plan and a tactical short range profit plan, certain format and procedural instructions should be provided by centralized source, normally the financial function, to establish the general format, the amount of detail and other relevant procedural and format requirement essential for aggregative of the plans of responsibility centers in conformity with the organization structure.

As the two profit plans are being completed the approval process must be initialized. This process involves approval, disapproval or revision based on action by executive management or presentation and justification by the managers or responsibility centers. Each member of the executive management group would have been provided a copy of the center's plans to study before the final presentation. Then the manager of each major responsibility center should be given the opportunity to make a complete presentation of the plans. After the presentation, in-depth discussion on these plans accrues involving the members of the executive group and manager of the responsibility center. After a participatory approval process is completed for each major responsibility center and programs form the major responsibility centers are combined into the overall strategic and tactical profit plan for the enterprise as a whole.

viii. Implementation of Profit Plans

Implementation of management profit plans that have been developed and approved in planning process involves the management functions of leading subordinates in attaining enterprise objectives and goals. Effective management at all levels requires that enterprise objectives, goals, strategies and policies be communicated and understood by subordinates. A comprehensive profit planning and control program may aid substantially in performing this function. Plans strategies and policy developed through significant participation establish the foundation for effective communication. The objective and goal of an enterprise should be realistic and attainable; they should present a real challenge to overall enterprise and to each responsibility center. The plans should have been developed with the managerial conviction that they are going to be met. If the plans are effective in developing process the various executives and supervisors would have a clear and understanding of their responsibilities and the expected level of performance.

ix. Use of Periodic Performance Plan

As profit plans are implemented during the period of the time specified in the tactical plan. Periodic performance reports are needful, which are prepared by the accounting department on a monthly basis. These performance reports compare actual performance with planned and show each difference as favorable or unfavorable performance variation. The periodic performance report focused on dynamic and continuous control tailored to assign managerial responsibilities. Actual performance statistics alone do not indicate high or low performance, it must be compared with realistic goals or standards in order to evaluate performance; so this periodic performance should be prepared to compare.

x. Use of Flexible Expenses Budgets

The flexible expenses budget is also referred to as the variable budget. It is applied only to expenses. It is completely separate from profit plan but used complement it. It gives realistic information about expenses that make it possible compute amounts for various output volumes or rates of activities in each responsibility center. Flexible budgets provide certain formula to each expense which gives the relationship factor and variable expenses factor. Each expense must be classified into three categories that are fixed expenses, variable expenses and semi variable expenses. Flexible budget can be used to develop expenses amounts included in developing the tactical profit plan. Flexible expenses budgets are prepared early in the budget planning period because as indicated, they provide cost data for the tactical profit plan.

xi. Implementation to Follow up

Follow up is an important part of effective control because performance reports are based on assigned responsibilities. They are the basis for effective follow up actions. It is important to distinguish between cause and effect. The identification of causes is primarily a responsibility of line management. Analysis to determine the underlying causes of both favorable, unfavorable variance should be given immediate priority. In case of unfavorable performance variance, after identifying the basic cause, an alternative and corrective action must be selected. Then the corrective must be implemented. In case of favorable performance variance, the underlying causes should be given identified. The underlying causes of favorable variance often provide reinforcements to the less successful operations and employees.

### 2.8.3 Application of Profit Planning in Banking Sector

Traditionally comprehensive profit planning and control was applicable only to large manufacturing and complex organization. But in the modern concept the profit planning and control is applicable non-manufacturing enterprises too, like service companies, financial institutions, hospitals, retail business, construction companies etc. The fact is that a company has peculiar circumstances or critical problem is frequently a good reason for the adoption of certain profit planning and control procedures. In respect to size, when operations are extensive enough to require more than one or two supervisory personnel, there may be a need for profit planning and control application. Nowadays banking sector is also curious about preparing profit plan budget. Functional budget only gives their operational plan where as PPC gives idea about profit maximization (Khatiwada, 2010, p. 57).

### 2.8.4 Application of Profit Planning in Non-Manufacturing Enterprises

Non manufacturing companies often sell services, some times related to the goods and some times services only. Service companies include such enterprises as banks, insurance companies, airlines, hotel and restaurants. A wholesale or retail company would not develop production, material, direct labor and manufacturing overhead. Comprehensive profit planning and control in wholesale, retail and service enterprises rest upon the same foundation as manufacturing companies.

- Development of objectives, goals and strategies
- Preparation of long term strategies plan
- Preparation of a tactical short term plan
- Continuous leadership to attain the goal
- A dynamic control system.

### 2.8.5 Benefits of Profit Planning

Profit planning offers many advantages to the business. The modest investment in time required to develop and implement the plan will pay liberal dividends later. Among the benefits that our business can enjoy from profit planning are the following:

i. Performance evaluation

The profit plan provides a continuing standard against which sales performance and cost control can quickly be evaluated.

ii. Awareness of responsibilities

With the profit plan, personnel are readily aware of their responsibilities for meeting sales objectives, controlling costs, and the like.

iii. Cost consciousness

Since cost excesses can quickly be identified and planned, expenditures can be compared with budgets even before they are incurred, cost consciousness is increased, reducing unnecessary costs and overspending.

iv. Disciplined approach to problem-solving

The profit plan permits early detection of potential problems so that their nature and extent are known. With this information, alternate corrective actions can be more easily and accurately evaluated.

v. Thinking about the future

Too often, small businesses neglect to plan ahead: thinking about where they are today, where they will be next year, or the year after. As a result, opportunities are overlooked and crises occur that could have been avoided. Development of the profit plan requires thinking about the future so that many problems can be avoided before they arise.

vi. Financial planning

The profit plan serves as a basis for financial planning. With the information developed from the profit plan, you can anticipate the need for increased investment in receivables, inventory, or facilities as well as any need for additional capital.

vii. Confidence of lenders and investors

A realistic profit plan, supported by a description of specific steps proposed to achieve sales and profit objectives, will inspire the confidence of potential lenders and investors. This confidence will not only influence their judgment of you as a business manager, but also the prospects of your business' success and its worthiness for a loan or an investment (http://www.villagemall.com, n. d.).

Likewise, Goet, Bhattarai and Gautam (2062) benefits of profit planning and control are as follows:

- Basic policies developed as the pre-requisites of profit planning and control show direction to the business
- It provides definite goals and objectives that serve as benchmarks for evaluating subsequent performance
- It compels and motivates management to make an early and timely study of its problems. It generates a sense of caution and case and adequate study among managers before they make decisions
- Managers at different levels have to participate in the development of the profit plan. This provides an excellent training ground for the managers to know the process of planning in debt
- Profit planning and control coordinates the activities of the entire organization by integrating the plans and objectives of the various parts. By doing so, it ensures that the plans and objectives of those parts are consistent with the broad goals of the entire organization
- It uncovers subsequent bottlenecks before they occur
- It pinpoints efficiency and inefficiency
- It reduces costs by increasing the span of control because fewer supervisors are needed
- It aids in obtaining bank credit, bank commonly require a projection of future operations and cash flows to support large loans
- It rewards high performance and seeks to correct unfavorable performance
- It provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guideline for the entire organization.
- Well organized profit planning and control programs enable the management to maintain a level of profits, which will ensure the existence of the business and the fulfillment of management responsibilities (p. 1.2-1.3).

### 2.8.6 Limitations of Profit Planning

Profit plans are based upon estimates. Inevitably, many conditions you expected when the plan was prepared will change. Crystal balls are often cloudy. The further down the road one attempts to forecast, the cloudier they become. In a year, any number of factors can change, many of them beyond the control of the company. Customers' economic fortunes may decline, suppliers' prices may increase, or suppliers' inability to deliver may disrupt your plan. The profit plan requires the support of all responsible parties. Sales quotas must be agreed upon with those responsible for meeting them. Expense budgets must be agreed upon with the people who must live with them. Without mutual agreement on objectives and budgets, they will quickly be ignored and serve no useful purpose. Finally, profit plans must be changed from time to time to meet changing conditions. There is no point in trying to operate a business according to a plan that is no longer realistic because conditions have changed (http://www.villagemall.com, n.d.).

## 2.9 Budgeting: a Tool of Profit Planning

A budget is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called budgeting. The use of budgeting to control a firm's activities is called budgetary control (http://www.accountingformanagement.com). The concept of budgeting was originally established with the function of an accountant. At its origin, the function of budgeting was assigned to the accountant. But in the modern day budgeting is given much more importance and is regarded as a way of management and in more important sense is regarded as a basic technique of decision-making and is given the name "profit planning and control program (Goet, Bhattarai and Gautam, 2062, p. 1.4)."

Budget may be defined as a financial plan which serves as the basis for decision making and central of expenditure and revenue for a specific period of time, normally a year in the case of a government (Uprety, Adhikari, Kharel and Poudel, 2007, p. 341). Budgeting in fact 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, p. 521).

Budgeting is future plan and projection taking some managerial assumptions. Budgeting involves the preparation 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. An effective budgeting system is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management cannot know the directions the business is taking out organizations that do not plan are likely to wonder aimlessly and ultimately give way to the swirl of current events. Proper planning is indispensable to achieve the goal of maximum profit. For the implementation of such plan, budget is regarded as the most effective device. A budget is effectively used for control purpose. It is a qualitative expression of a plan of action prepared advance for the period to which it relates. Budget is a statement showing the planned income and expenditure for a future period prepared in terms of money or quality or both (Dangol and Dangol, 2001, p. 266).

Thus, budget is an instrument of planning and financial controls. Budgets must be based on realistic statements of goals and objectives of organization. It serves as a powerful media of communication between various levels of managers, administrators, executives, supervisors and operatives in enterprises. Employees who are responsible for performance must clearly aware of long and short term objectives and goals to well perform their responsibilities.

### 2.9.1 Different Approaches of Budgeting

There are different approaches of budgetary theory which can be classified in two approach as:

**a. Classical Approach: Balance Budget**

The essence of a budget, in classical writings, is the balancing of revenues and expenditures. This view was based on the analogy of behavior expected of an individual that he must not spend more than his income. H Dalton says that a balanced budget is often regarded, not only as an unquestioned precept of finance, but as a moral precept too. He raises three preliminary questions relating to a balanced budget.

They are:

- What should be included in expenditure?
- What should be included in revenue?
- What length of time should be chosen as the accounting period?

The classical budgetary theory of balanced budget was based on the assumption that full employment is the normal condition. In a condition of full employment, financing of budget deficits by public borrowing means withdraw of funds from private employment where they are more productively used. Secondly, financing of deficits by borrowing is a less painful method than taxes. Thirdly, their view of public debt was different from the modern approach.

**b. Modern Approach**

The modern view is different from the classical standpoint which rules out the use of budgetary measures to attain such an objective. In the classical approach, the entire income received at full employment is always repent on either consumption or investment saving is automatically converted into investment. In such a system all public revenues, taxes or borrowing reduce private spending. This reduction will take the firm of decline in consumption or investment (p. 342).

### 2.9.2 Principles of Budgeting or Control of Budgeting

There are canons or rules or principles of budgeting. They are as follows:

i. Executive programming

The budget is the program of the chief executive. When enacted, it becomes the work program of the government reflecting all government responsibilities and activities, political, economic and budget formulation must, therefore, be under the direct supervision of the chief executive. Hence, budgeting and programming are two sides of the same coin; both must be under the direct supervision of the chief executive. This principle holds true for all government federal, state and local.

ii. Executive Responsibility

Appropriation is not a mandate to spend. The chief executive must see that the departmental fulfill the intension of the legislature and due economy is deserved in the execution of the program.

iii. Reporting

Preparation of budget legislative action and budget execution must be based on financial and operating reports coming up from various administrative units of the governments. In other words, current information should be furnished to the executive as well as to the legislative branch regarding, the progress of the work with respect to various progress and projects expenditure made, revenue received, individuals employed, objectives accomplished and other relevant facts.

iv. Adequate Tools

Chief executive should possess adequate administrative tools to fulfill its budgetary responsibilities. It must have under its direct supervision an adequate equipped budget office. The sufficient powers must be available to the chief executive. So that it may execute the intent of the legislative in the most economical way. It must have among others an authority to make monthly or quarterly allotments of appropriations.

v. Multiple Procedures

Modern organizations have many functions to perform. Functions to everyday administration, long run construction an development projects, quassi-commercial operations such as purchased and sale of goods, or banking operations varying procedures should be adopted for their effective management.

vi. Effective Director

The budget document must contain a great amount of detail for the information of the legislature and guidance of the executive. If the flections for which the amount is appropriated are too narrowly defined, it may hinder, the effective and economical management of the amount appropriated.

vii. Two Way Budget Organization

It is of paramount importance to remember that effective budgeting depends upon the active co-operation of all departments and their sub-divisions. Budgeting is not only a function of the central office but a process that should permeate the entire administrative structure. Traffic between the central office and the department offices responsible for budgeting and programming should move on a two way rather than a one way street.

### 2.9.3 Classification of Budgeting

The budget can be classified in the following ways:

i. Functional Classification

While presenting the budget before the legislature for approval, the minister has to satisfy himself that the money is allotted in a manner, which will help in the attainment of the insertions of his government. This is the expenditure side of the budget. On the revenue side he must see that the burden of taxation is distributed in accordance with the accepted principle of social justice. These aims of the budget can be realized if the types of services provided classify government expenditures. It is the functional classification of expenditures and accordingly, expenditure are divided into:

a. General services (defense, justice, police and general administration)
b. Community services (roads and bridges, sanitation and others)
c. Social services (Education, health, social security, and others)
d. Economic services (agriculture, fuel and power, industry and minerals transport and communication and others)

This type of classification gives useful information on purposes which government expenditure serves. In order to realize the aim programs and activities of government organization are grouped according to the basis series provide by them.

ii. Organizational Classification

It is a classification of the budget according to the organizational units of the government like department or ministers. These units are called doers in the government. These doers plan and execute budget program. It can be easily done on expenditure side of the budget, but on the revenue side there may be difficulty.

iii. Object Classification

It was a great technical step forward in budgeting sine at permitted the installation of government accounting systems that could be linked with budget accounts and thus limit defalcations. This classification is a device to control expenditures at departmental level. Object classification with emphasize on material objects may become more useful and can be co-ordinate with an economic and performance classification of transactions. Though the identification of the resources pattern, it may be an aid to planning.

iv. Economic Classification

It is a classification of government expenditure and receipt by economic categories that are of significance for analyzing the short run effects of government transactions in the working of the economy. This classification is intended to facilitate economic analysis; it shows the economic character of outlays. It distinguished between current and capital items and between purchases of goods and services and transfer payments. This type of classification is of some value is assessing the macro economic impact of the budget, but seems to be addressed more to the interests of national income statisticians.

v. Program and Performance Budgeting

It was popular in USA in the beginning but now it is popular all over the world. It involved:

a. Casting budget categories in functional terms as opposed the objects of expenditure and
b. Providing work cost measurement to facilitate efficient performance of prescribed activities reducing as far as possible, the cost data to discrete measurable units. The basic idea of performance of budgeting is to change the emphasis in the budget from the objects of expenditure to functions, programs activities and projects. It is essentially a management approach to government budgetary.

Performance budget involves the following five stages:

a. Objectives

The objectives of individual program are to be clearly and explicitly spelled out in quantitative and measurable terms. These objectives are to be viewed against long term and goals of government.

b. Analysis

There is need to consider how the objectives of long term strategy and short term tactics are to be achieved. Possible alternative programs are to be identified. In the selection programs cost t and benefits of the alternative programs have to be worked out.

c. Budget Classification

The programs taken up for implementation are classified with reference to a classification system so as to facilitate allocation of resources to related programs. The budget so prepared must go through the prescribed procedure of presentation, approach and sanction.

d. Organizing

The role of different organizations in achieving the specified objectives are demarcated and the financial rules and accounting system are remodeled to effective implement the programs.

e. Evaluation

Criteria for evaluating the programs with reference to the objectives are evolved and proper information and reporting system on financial, physical and economic data relevant to the programs installed so as to monitor the programs during execution and evaluation on completion.

f. Zero Base Budgeting

The idea of zero base budgets is old but it is quite recent. The chief idea is that in drawing up a budget the existing level of expenditures should not be taken for granted but should be critically examined. In other words, while reevaluating every program the government must not think in terms of increases or decreases in spending but start from a zero base that at must be justified freshly. The mere fact that a program has been carried on for many years is no justification for its continuation in future as well. This approach to budgetary is never followed literally. This budgeting was produced by Hilton Young at first time in 1924 and it was first applied experimentally in the US department of Agriculture in 1962.

### 2.9.4 Budget Formulation

Budget formulation, which is known as budget cycle, consists of the following four steps,

i. Preparation Phase

Preparation is the first step of budget formulation. The responsibility of preparing budget usually reserved in the executive body of the government in the Nepalese case. In the course of preparing the budget, documents, finance ministry issues some guidelines and priorities consistent with economic planning and fiscal policy. It sends the circulars to all ministries and departments to send the estimation of revenue and expenditure to the budget division of finance ministry consistent with these guidelines. On the basis of this budget division of finance ministry prepares the budget documents.

ii. Legislation Phase

After preparing the document and reviewing if any, finance ministry submits the document in the house of approval. After the long discussion and revision, the budget is passed by the parliament and hence it is enacted.

iii. Execution Phase

When the budget document is approved by the parliament, budget enters into the execution phase. In this stage, the executive body of the government executes budget. Finance ministry thereafter disburses the fund to the department and line agencies in accordance to the schedule of the projects and their actual performance.

iv. Auditing

Auditing of the budget is made in order to ensure whether funds are spending in conformity with the law. The control of budget through audit is done by the office of the controller General and Auditor General in Nepalese context.

### 2.9.5 Advantages of Budgeting

The main advantages of budgeting are as follows:

- Budgets provide a means of communicating management's plans through the organization.
- Budgets force managers to think about and plan for the future. In the absence of the necessity to prepare a budget, many mangers would spend all of their time dealing with daily emergencies.
- The budgeting process provides a means of allocating resources to those parts of the organization where they can be used most effectively
- The budgeting process can uncover many potential bottlenecks before they occur.
- Budgets coordinate the activities of the entire organization by integrating the plans of the various parts of the organization. Budgeting helps to ensure that everyone in the organization is pulling in the same direction.

- Budgets provide goals and objectives that can serve as benchmark for evaluating subsequent performance (http://www.accountingformanagement.com, n.d.).

### 2.9.6 Disadvantages / Limitations of Budgeting

Whilst budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms. Budgets can be seen as pressure devices imposed by management, thus resulting in:

i. Bad labor relations
ii. Inaccurate record-keeping
iii. Departmental conflict arises due to:
    a) Disputes over resource allocation
    b) Departments blaming each other if targets are not attained
iv. It is difficult to reconcile personal/individual and corporate goals
v. Waste may arise as managers adopt the view, "we had better spend it or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department
vi. Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs
vii. Managers may overestimate costs so that they will not be blamed in the future should they overspend (http://www.accountingformanagement.com, n.d.).

### 2.10 Activities of Commercial Bank

Traditionally, the primary activities of a commercial bank are essentially accepting deposits and making loans and advance. Commercial banks are found to be having been defined by their as per the commercial banking act 2031, a bank is a commercial bank established under this act and banking transaction are activities of accepting deposit from the others for the purpose of lending or investing repayable on demand or some stipulated time period by means of generally accepted procedure. The primary activities of a commercial bank have been categorized in two folds as below:

### 2.10.1 Mobilization of Resources

The bank mobilizes the resources in two main sources

i. Owner's Fund or Capital Fund

As per the guideline of NRB, 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 to be of at least 12 the end of fiscal year. Likewise, 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% of net profit amount from other banks and central bank.

ii. Customer Deposit

Customer deposits are raw materials for the bank. It is the main source of commercial bank's resources. It is also much deposit mobilization becomes the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits. Deposits in the banks are accepted from their customers in various types of account opened in the banks by the depositors. Total deposit of a bank is composed demand and time deposits. The demand deposits 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 is paid in to these accounts. Such deposits are accepted by current account. Time of fixed deposits is that types of deposit in which customers can save money in the highest rate of interest. The time period of deposit is already fixed so that the bank can deploy its resources for the fixed period of time in various sectors of investment.

iii. Other Liabilities

Resources other than the capital fund and customers deposits are the other liabilities of the bank. It includes short term borrowed fund from other banks locally or foreign and central bank, such as borrowings are called inter bank borrowing which are normally obtained for a very short period and those are meant for meeting for temporary liquidity crunch in the bank. The rates of interest on such borrowing depends on the prevailing inter bank interest rate. Other liabilities also include the payables in the account in the bank, which has been arisen during the regular operation of the bank.

### 2.10.2 Deployment of Resources

Every bank strives to maximize its earning by employing its surplus cash by lending it to the prudent borrowers in a manner which is no way impairs its capacity to pay on demand the acquitted fund to their owners. Deployment of resources means utilization of the bank fund in such a way that it ensures liquidity as gives some earnings for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio which meets above requirement in the best way. In fact the efficient of a banker is reflected by this activity.

Successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance will be achieved when the bank has sufficient cash in hand to meet every claim that is or likely to be made by its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders. The deployment of resources or assets portfolio building of a bank should be guided by major two consideration viz. the liquidity and the portfolio.

a. Assets Portfolio for Liquidity

Liquidity refers the capacity of bank to convert its resources in to cash. A major portion of a bank's resources constitute deposit which are subject to repayable on demand or after some time as the case may be, a banker cannot offered to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank deeps adequate amount of liquid assets in the form of cash in their vault and balance at their account in central bank.

b. Investment

Investment includes the fund invested for buying government and other stock exchange security treasury bills fund placement at cell account with other bank etc. such investment can easily be liquidated if required this has 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 form cash and balance at NRB.

c. Loan Advances and Bills Purchases

Banking business essentially involves lending in fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. Banks being a business proposition it must declare handsome dividends to its shareholders unless the profit outlook of a bank is bright, new funds will be difficult to obtain. Commercial banks generally tend for short term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks is mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before lending is guided by their lending policies. General, principle of a sound lending policy of a bank are safety, liquidity, profitability and risk diversification. Generally banks make their advances in the forms of loans, overdrafts cash credit and bills discounting.

In a loan discount the entire amount is disbursed to the borrower, which is repayable in installment or in lump sum and expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The types of loan may be pledge loan, demand loan, hire purchase, import finance, export finance loan against shares etc. The banks give a limit of overdraft facility to its customers for their business promotion. It is a working capital loan to the business. The bank provides such facilities against the fixed deposit, government securities and other collaterals of the customers. The title on the payment up in liquidity is transferred in favor of the bank that purchases it. Bills may be clean or documentary. If its is a clean negotiable cheque, bills of exchange payable at sigh for after a tenor, then it is called clean bill and if the instrument is accompanied with other trade documents. It becomes the documentary bill. Bills purchasing is short term credit availed by the bank in which bank gives the value of the bills deduction some account from the face value.

## 2.11 Interest Spread

Interest spread is the gap between the interest rate on deposit and interest rate on lending. The bank has to incur expenses toward payment of interest on the interest bearing account. 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 bulking total cost of the bank. A successful banker says adequate attention toward lowering its interest cost by marketing low cost deposits and building optimum portion of interest free deposits in this deposit mix. Deployment of resources in income generating assets is the income yielding activities of the banks. Higher the proportion of loan and advance in the assets portfolio, higher will be the yield on fund. As the interest income is the major contributing source of the bank, the banker should be careful in realization of interest and enhance the deposit is called spread. In other words spread is the net income of the bank from which banks have their operational costs and given out the dividends to the shareholders. Therefore, bankers attempt to maintain higher spread by minimizing the average cost of deposit and maximizing the average yield on funds. But as per the current regulatory of NRB, the interest spread of a bank can be maximized of 5% only (Dahal and Dahal, 2002).

## 2.12 Loan Loss Provision

The central bank has made a mandatory provision for the entire bank, classify their outstanding LABP the basis of aging into four grades viz. pass loan, substandard loan, doubtful and loss. 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 provide for against the loan loss at various rates. Therefore, in order to improve the profitability the bankers should be moved attentive toward timely realization of dues so that the amount of loan provision may be maintained at the least possible extent (Dahal and Dahal, 2002).

## 2.13 Other Income Generating Activities of the Bank

Banks do some other kind of business, besides deployment of funds, which are popularly, bank guarantees transactions. Issuing letter of credit, cheque and drafts collection, remittance, etc. in such activities banks do not have to involve their fund and get they are charging some fees as commission for such services providing process. 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 shall become actually liability only when the client fails to perform as per the contact with the employer.

### 2.13.1 Letter of Credit (LC)

A Letter of Credit, simply defined, is a written instrument issued by a bank at the request of its customer, the Importer (Buyer), whereby the bank promises to pay the Exporter (Beneficiary) for goods or services, provided that the Exporter presents all documents called for, exactly as stipulated in the Letter of Credit, and meet all other terms and conditions set out in the Letter of Credit. A Letter of Credit is also commonly referred to as a Documentary Credit.

There are two types of Letters of Credit: revocable and irrevocable. A **revocable** Letter of Credit can be revoked without the consent of the Exporter, meaning that it may be cancelled or changed up to the time the documents are presented. A revocable Letter of Credit affords the Exporter little protection; therefore, it is rarely used. An **irrevocable** Letter of Credit cannot be cancelled or changed without the consent of all parties, including the Exporter. Unless otherwise stipulated, all Letters of Credit are irrevocable.

A further differentiation is made between Letters of Credit, depending on the payment terms. If payment is to be made at the time documents are presented, this is referred to as a sight Letter of Credit. Alternatively, if payment is to be made at a future fixed time from presentation of documents (e.g. 60 days after sight), this is referred to as a term, usance or deferred payment Letter of Credit.

The International Chamber of Commerce (ICC) publishes internationally agreed-upon rules, definitions and practices governing Letters of Credit, called “Uniform Customs and Practice for Documentary Credits” (UCPDC). The UCPDC facilitates standardization of Letters of Credit among all banks in the world that subscribe to it. These rules are updated from time to time; the last revision became effective January 1, 1994, and is referred to as UCPDC 500. Copies of the UCPDC 500 are available from your Global Trade Finance office. Please refer to the back cover of this guide for a listing of these offices (www.tdsecurity.com).

## 2.14 Concept of Burden

During the establishment and operation of a bank, it has to incur various kinds of expenses besides the expenses are employees expenses, administrative expenses, depreciation on fixed assets, other operating expenses, expenses for loan loss provision, interest suspense expenses, bonus provision, expenses for income tax provision etc. all such expenses other than interest expenses cumulatively form a burden to profitability. The spread earned by the bank must other than interest income earned by the bank from their other activities besides fund lending contributes to lowering the burden there by increasing the profitability of the bank.

## 2.15 Review of Related Research

Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studies have been conducted for the behaviour of Profit planning. Regarding this various empirical studies have been conducting related area of profit planning. Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studied has been conducted for the behaviour of Profit planning. Regarding this various empirical studies have been conducting related area of profit planning. There are many researchers carried out by different research in this topic.

**Khatiwada (2010)** has conducted a research on ***"Profit Planning in Commercial Bank: A Case Study of Himalayan Bank Ltd."*** The objectives of his research were:

- To focus the current profit planning adopted and its effectiveness in Himalayan Bank Limited (HBL).
- To study the variance of budgeted and actual achievements.
- To analyzes the growth of the business of the bank over the period.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.

**The major findings of his study are as follows:**

- The bank has 89% average contribution of customer deposit in the resources mobilization as per the data F/Y 2060/61 to 2064/065 and uses the other resources of 11 % in average.
- HBL is well performing in the deposit collection sector. Actual deposit is higher than the budgeted figure. It is found (r) is 0.9770 and PE is 0.0137.
- The figure of "r" shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is r>6PE, it is significant so the actual deposit going on same direction. The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2065/066 will be RS 33735532 thousand stated by the regression line.
- The researcher find that the 100 % of achievement of targets in deployment of resources other than LDO i.e. NLDO. The relationship between actual deposit and actual O/S LDO is in increasing trend over the period.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of HBL is in the range of 2.23% to 2.58% it means the bank pays the interest 2.41 % in average over the period.
- The yearly interest income is in fluctuating trend in amount where the O/S LDO is increasing. In the term of average rate of return is fluctuating trend it is ranges of 7.15% to10.75 %.The average rate of return over the study period is 9.12%.
- The amount of interest margin of HBL is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period. The current ratio of HBL has almost met the standard of 2:1. Debt-Equity ratio shows that the HBL's financial strength is very strong because it has more internal fund to repay the borrowing capital.
- The interest coverage ratio of HBL ranges between 1.85 to 2.15Times. The range of return on total assets is 1.02 to 1.72 % and range of return of total capital fund is 11.47to 19.89 % over the period.
- The cash flow analysis of the HBL shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

**Kunwar (2009)** has conducted a research on ***"Profit Planning of Nabil Bank Ltd".*** The objectives of his research are:

- To find out the relationships between total investment loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of commercial Bank
- To assess the impact of investment on profitability.
- To analyze and forecast the trend and structure of deposit utilization and its projection for five years of Commercial Bank
- To provide suggestion and possible guidelines to improve investment policy and its problems.

**The major findings of his research are as follows:**

- The bank is able to maintain good liquidity and financial position.
- Credit and advance to fixed deposit ratio, total deposit ratio, total assets is in fluctuating, little fluctuating and not fluctuating trend which indicates the high contribution made by lending and investing activities.
- The Debt to equity ratio indicates that the bank is highly leveraged because the claim of the outsiders exceeds than those of the owners over the bank assets.
- The Debt to assets ratio of the bank is high. On an average 92% of assets are financed through debt capital which implies that the bank has riskier debt financing position. Total assets to net worth of bank are increasing trend which is good for the bank.
- Net profit to gross income ratio of the bank is in increasing and decreasing trend, it was highest in the year2006. Interest income play dominant role in total income.
- The bank has the better profitability position.
- Return on loan advances ratio indicates contribution in return is decreasing by loan and advance. It has normal earning capacity in loan and advance and assets utilization.
- The research shows the better profitability in the coming last years. It represents high expectation of company in market and high demand of shares.

**Rimal (2008)** has conducted a research on "***Profit Planning and control of Nepal Bangladesh Bank"***. The objectives of her research are:

- To analyze the trend of profit of the fiscal year 2057/58 to 2063/64 of Nepal Bangladesh Bank
- To highlight the current profit-planning premises adopted and its effectiveness in NB Bank
- To observe NB Bank's Profit planning on the basis of overall managerial Budgets developed by the Bank
- To analyze the variance of budgeted allocation and actual achievement
- To study the growth of the business of the Bank over the period
- To provide suggestion and recommendations for improvements of the overall profitability of the bank

**She has drawn major findings of her research as:**

- NB bank has incurred higher cost towards deposit mobilizations which was found to be considerably growing every year. The target set for deposit mobilization was well met every year.
- Major portion of the resources were deployed in LDO. The data analysis of Deposit and LDO with the help of coefficient of variation showed that LDO was less variable than Deposit.
- Outstanding Letter of Credit liability was not constant similarly Outstanding Guarantee liability was in increasing trend every year.
- Interest expenses were the highest among the total expenses items which was found decreasing every year corresponding to the increasing in deposit.
- Interest income was the highest among other income items in the total revenue which was increased every year corresponding to increase in LDO. The interest spread was also found increasing every year.
- The average current ratio shows the satisfactory liquidity position. Debt equity ratio was higher.

- It was found that the Return on Capital was negative and this trend followed the same over the study period.

**Thapa (2006)** has study on *" **Profit planning in merchandising company: A case study of National Trading Limited**"* his objectives are as follows:

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

**Some of the major Findings of his study are as follows**:

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

**Sharma (2002)** has been conducted a research on similar field with the title of ***"Profit Planning in Commercial Banks: A Case Study of Nepal Bangladesh Bank."*** The objectives of his research were as follows:

- To highlight the current profit planning premises adopted and it's effectiveness in NB Bank.
- To observe NB bank's profit planning on the basis of overall managerial budgets 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 provide suggestion and recommendation for improvements of the overall profitability of the bank.

**Major Findings of his research were as follows:**

- It observed that the bank has adopting a policy of keep minimum number of employees as possible. But it has unnecessary long ladder at various levels with out specific job description.
- NB bank lacks active and organized planning department to undertake innovative products R & D works.
- The rate of expansion of branches of NB was increased.
- Controlling functions of the branches are so far being carried out directly by Head Office, which may be difficult in the days to come because of its wide geographical extend.
- Objectives of the Bank are expressed in literary form and not specified clearly.
- The major resources of NB bank are cost bearing deposit.
- The budgeted and actual deposit mobilization by the bank has been well meet every year.
- Major portion of resources has been deployed in loan and advances.
- The budgeted and actual deployment has been met every year.
- The interest expenses of the bank are fund increasing each year corresponding to the increase in deposit. The interest expenses are perfectly and positively correlated with deposit.
- There is a perfect and positive correlation between interest income and loan and advances.
- The bank has suffered off by loss during the first year of its operation. It is in constantly increasing trend afterward. As the rate of growth of spreads is higher than burden the profitability of the bank is increasing.

**Bhandari (2001)** has also conducted the research on ***"Profit Planning in Manufacturing Enterprises: A Case Study of Birgunj Sugar Factory Ltd (BSFL).***"His research has been focused on the present practice of profit planning.

The main objectives of his research were

- To examine the present practice of PPC and its effectiveness in BSFL
- To analyze the marketing plan
- To analyze the production plan in depth and
- To evaluate the financial performance of the company

He has conducted this research during the period of six years from F/Y 2050/051 to 2055/056 to meet the above objectives.

**The main findings of the research were as follows:**

- Inadequate planning of profits due to lack of skilled planners
- Lack of entrepreneurship and commercial concepts in overall operation of enterprise
- Lack of participatory management for setting targets and goals, resulting low productivity of manpower
- Ambitious marketing plan
- It seems that there is no consistency on actual sales and budgeted sales
- Financial position of this enterprise is not satisfactory
- Lack of co-ordination among departments and role conflicts exists between departmental managers.
- There is lack of suitable technological support and expansion to meet the increasing demand of the products and to maintain quality
- Enterprises fail to maintain its periodic performance repost for the evaluation of performance e to find the underlying causes of poor achievement

## 2.16 Research Gap

This chapter has included different aspects of profit planning and activities of commercial banks. Some of the previous research reports was reviewed on the regarding field. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. Some of the researches have been done with commercial bank as well. However, this research focuses on profit planning of Nepal Investment Bank which has not been carried out previously. To find the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research, effort had been made to understand the Profit Planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

# CHAPTER III

# RESEARCH METHODOLOGY

This chapter includes the researcher's understanding on the research, research inquiry, preparations for data collection (including data collection tools), the data collection exercise as well as the data analysis. The researcher tried to address such questions like why the research study has been undertaken. How the research problem has been defined, what data has been collected and what particular method and techniques of analyzing data has been adopted?

## 3.1 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Selltiz & others as cited in Kothari, 1985, p. 39). The research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data (Kothari, 1985, p. 39). This study is an examination and evaluation of budget process in profit planning program of Nepal Investment Bank. Various functional budgets and other related accounting information's and statement of 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.

## 3.2 Research Approach

This research was based on quantitative research approach. Quantitative research intends with collection of numerical data, presentation and making the report by using different tools and techniques.

## 3.3 Sources of Data

This research was based on secondary data. The data were collected through the annual report of NIBL, reports of NRB and other financial institutions.

## 3.4 Research Variables

Since profit planning is a wide term there are many variables in this area like accounting statement of the bank such as customer deposits, loans advances and bill purchase, interest income and expenses, staff expenses and operating expenses was analyzed to address the research questions of this study.

## 3.5 Tools for Data Analysis

Data in the research was analyzed by using tables, bar diagrams and line charts. Furthermore, the descriptive statistical method like standard deviation and variance analysis were used to analyze the data. Also some financial statements like ratio analysis, BEP and cash flow analysis was used in this research.

### 3.5.1 The Mean

The most popular and widely used measure of representing the entire data by one value is what most laymen can an average and what the statisticians call the arithmetic mean. Is value is obtained by adding together all the items and by dividing this total by the number of items (Gupta, 1985, p. 7.4).

### 3.5.2 The Standard Deviation

Standard deviation is denoted by small Greek letter σ (read as sigma). It measures the absolute dispersion or variability of a distribution: the greater the amount of dispersion or variability the greater the standard deviation. For the greater will be the magnitude of the deviations of the value from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series; a large standard deviation means just the opposite. (Gupta, 1985, p. 8.19).

### 3.5.3 Variance

The concept of variance is highly important in advanced work where it is possible to split the total into several parts, each attributable to one of the factors causing variation in their original series. Variance has relation with standard deviation. The variance shows the result as: the smaller the value of variance the lesser the variability or greater the uniformity in the population (Gupta, 1985, p. 8.33).

### 3.5.4 Karl Pearson's Correlation

The degree of relationship between the variables under consideration is measured through correlation analysis. The measure of correlation called the correlation coefficient or correlation index summarizes in one figure the direction and degree of correlation. The correlation analysis refers to the techniques used in measuring the closeness of the relationship between the variables. Correlation has different types i.e. positive or negative correlation, simple, partial and multiple and linear and non-linear correlation. Of the several mathematical methods of measuring correlation, the Karl Pearson's method popularly known as Pearson coefficient of correlation, is mostly used in practice. The Pearson coefficient of correlation is denoted by r. It is one of the very few symbols that are used universally for describing the degree of correlation between two series. The value of the coefficient of correlation must be positive to be correlated each other. When r =1, it means there is positive correlation between two variables. When r = -1, it means there is perfect negative correlation between the variables. When r = 0, it means there is no relationship between the two variables. However, in practice, +1, -1 and 0 are rare (Gupta, 1985, p. 10.12).

### 3.5.5 Cost Volume Profit Analysis

Profitability analysis involves examining the relationships between revenues, costs, and profits. Performing profitability analysis requires an understanding of selling prices and the behavior of activity cost drivers. Profitability analysis is widely used in the economic evaluation of existing or proposed products or services. Typically, it is performed before decisions are finalized in the operating budget for a future period.

The relation among cost, volume and profit can be found out clearly through break-even analysis. **Break-even analysis** is regarded as a sophisticated method or tool used in management. It is the most widely known form of CVP analysis. It is a level of activity where total costs are equal to total sales. It is specific level of activity or volume of sales which breaks the revenues and costs evenly. It is a point of ‘no profit, no loss’. If the sales or production is higher than break-even volume, there will be profit. In the same way if the sales or production is lower than break-even volume, there will be loss (Dangol and Dangol, 2004, p.164).

### 3.5.6 Ratio Analysis

An arithmetical relationship between two figures is known as ratio. It is computed by dividing one item of relationship with the other. Ratio simply means one number expressed in terms of another. Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. To evaluate the different performances of an organization by creating the ratios from the figure of different accounts is termed as ratio analysis. Thus it is a financial analysis (Dangol and Dangol, 2004, p. 595).

### 3.5.7 Cash Flow Analysis

A cash flow statement is a statement of changes in financial position on cash balance. It summarizes the cause of changes in cash position between dates of the two balance sheets. It indicates the sources and uses of cash. This statement analyses changes in non-current account (other than cash) to determine the flow of cash. We can find out the net change in the cash position from the income statement and comparative balance sheets by making the adjustments for non cash items e.g. cash from operations can be found out by adding depreciation to net profit. Similarly, gain on sale of non current assets should be deducted while loss should be added to net profit.

# CHAPTER IV

# PRESENTATION AND ANALYSIS OF DATA

In this chapter the researcher has presented, interpreted and analyzed the data on profit planning system and budgeting procedure in Nepal Investment Bank Ltd. Various functional budgets are analyzed and related data are presented systematically in tables, graphs and charts. Furthermore, data are analyzed by using appropriate statistical tools such as the mean, standard deviation, coefficient of correlation, variance and financial tools such as ratio analysis, cost volume profit analysis and cash flows analysis.

## 4.1 Strategic Profit Plan of NIBL

The strategic profit plan of NIBL is reflected in its business budget. The business budget is a reasonable estimation of business activities 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 separated profit centers and the business targets are allocated to them. The resource mobilization activities are generally the cost bearing activities and the revenues are generated mostly from deployment of the resources. The surplus revenue generated over the expenditure involved is the net income. Therefore, the strategic profit plan of NIBL is consisted the following plans:

i. Plan for resources mobilization
ii. Plan for deployment of the resources
iii. Plan for non-funded business activities
iv. Revenue plan
v. Expenditure plan

## 4.2 Resource Mobilization Plan of NIBL

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

i. Deposit accounts

ii. Loans and borrowing

iii. Share capital

Deposits, loans and borrowings and share capital are the main sources of resource mobilization. The status of resources mobilization of the bank is presented in the following table.

**Table 1 Status of Resources Mobilization**

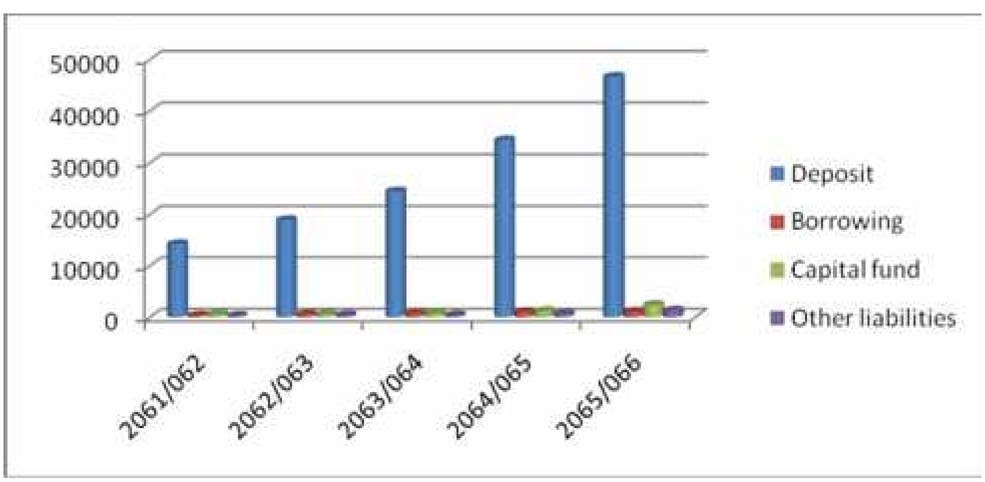
(*Rs. in million*)

| Fiscal Year | Deposit | Borrowing | Capital fund | Other liabilities | Total |
|---|---|---|---|---|---|
| 2061/062 | 14254.57 | 350 | 587.74 | 278.8 | 15471.29 |
| 2062/063 | 18927.31 | 550 | 590.59 | 437.39 | 20505.29 |
| 2063/064 | 24488.86 | 800 | 801.35 | 423.87 | 26514.08 |
| 2064/065 | 34,452 | 1050 | 1203.92 | 684.79 | 37390.44 |
| 2065/066 | 46698.11 | 1,089 | 2407.07 | 1316.06 | 51510.04 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

Above table shows the status of bank in terms of its resources mobilization. It shows that the customer deposit collection has contributed the major share in resource mobilization. It also gives meaning that the resource of the bank is increasing every year. Beside deposit collection borrowings, capital fund and other liabilities are the sources of resources of the bank. Generally, loans and borrowings are obtained from local banks, central banks and other financial institutions for the short period of time. Likewise, the capital fund is raised from shareholder’s equity which is the net worth of the bank.

**Figure 1 Status of Resources Mobilization**



Above bar diagram shows the condition of resources mobilization where the customer deposit plays a great role to increase the resource mobilization. Likewise other sectors have also contributed on it. In another side, the resources mobilization is in increasing trend. In F/Y 2061/062 the total resources is below 15000 million but in F/Y 2065/066 this trend has crossed the 45000 million. Hence, it proves that the bank has in very strong position of its resources mobilization day by day. Furthermore, to analyze the study in detail the following paragraphs show the total resource mobilization of the bank:

### 4.2.1 Deposits Collection

Deposit collection is a major function of commercial bank. It is the raw material for the bank. Bank collects the deposits from the customer to operate its lending function. If there is no deposit there is no imagination of banks. Every activity of the bank starts with deposit even there are many other functions of the bank. Customer deposit is the most important source of resource mobilization of the bank. As per the data of F/Y 2065/066 the total amount of deposit is Rs 46698.11 million. In F/Y 2065/066 of customer deposit covers the 90.66% amount of total resource mobilization. Deposit is collected from various sectors like business, general public, trusts, NGOs, schools and colleges, other institutions and individuals.

The deposit is collected on customer's account which is opened as per the bank's policy. Annual report of NIBL, 2008/09 shows the customer deposits are as:

i. Interest free deposit accounts

Interest free deposits refer to the account on which the bank does not pay interest on the deposits of the customers. The following accounts are the interest free deposit accounts:

- Current deposit
- Margin deposit

ii. Interest bearing deposit accounts

Deposits in which banks are required to pay interest in known as interest bearing deposit.

The interest bearing deposit accounts are as follows:

- Saving deposit

- Fixed deposit
- Call deposit
- Recurring deposits

The projected budget amount and actual amount is presented in the following table to analyze the profit planning and the real achievement of the bank.

**Table 2 Status of Budgeted and Actual Deposit Collection**

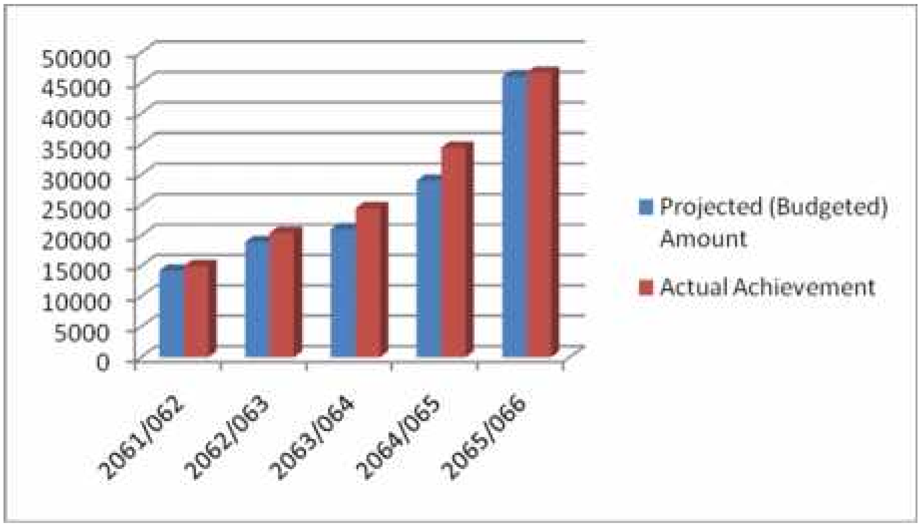
*(Rs. in million)*

| Fiscal Year | Budgeted Amount | Actual Achievement | Achievement (%) |
|---|---|---|---|
| 2061/062 | 14254.57 | 14983 | 105.11 |
| 2062/063 | 18927.31 | 20432 | 107.95 |
| 2063/064 | 21000 | 24488.9 | 116.61 |
| 2064/065 | 29000 | 34,452 | 118.8 |
| 2065/066 | 46100 | 46698.1 | 101.23 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

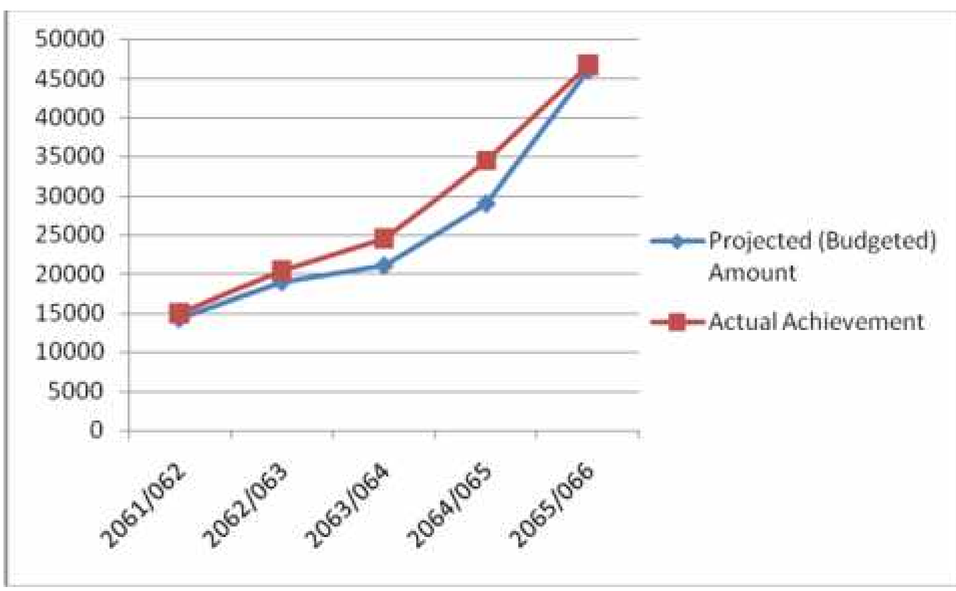
Above table shows the status of budgeted and actual deposit collection of the bank. The deposit is in increasing trend during the fourth year. In the first year the bank has collected deposit by 105%, in second year it is 107.95%. In third year the actual deposit is collected by 116.61 percent, in fourth year it is collected by 118.80 percent and in the fifth year it is collected by 101.29 percent. In this scenario the bank shows the good performance in deposit collection from the various customers. However, we can analyze the deposit amount in the fifth year F/Y 2065/066 (i.e. 2008/09) the bank has hardly meet crossed the targeted budget in comparison with the previous two fiscal years. The bank is slightly affected by the market liquidity crunch since the world has been falling down in the vast financial crisis. To understand the planned deposit and its actual achievement by the bank during the research period it is presented in the following bar diagram:

**Figure 2 Bar Diagram of Deposit Collection**




Above bar diagram shows the trend of deposit collection by the bank during the research period. It is easily understood that the deposit of the bank is in increasing trend. The bank has really a good performance in this mission. In the third and fourth year bank has really showed the outstanding performance but in the last year the bank has hardly crossed its target. Furthermore, to understand it in easiest manner the scattered diagram is also presented in the following figure:

**Figure 3 Scattered Diagram of Budgeted and Actual Deposit Collection**



The scattered diagram also shows that the line of budget amount and actual amount is closed each other in the first two years, scattered in the third and fourth year and again close each other in the fifth year. Anyway, the bank has achieved its planned target even in the situation of world's financial crisis. It is a strength part of the bank. The researcher felt that the profit planning and controlling of the bank is very much strong. The planned amount of deposit and its actual collection can be analyzed through some statistical tools like arithmetic mean, standard deviation and coefficient of variations to find out their relation. The result of statistical analysis of the above table no 2 is shown in the following table. The **SPSS** was used to analyze the data:

**Table 3 Statistical Analysis of the Budgeted Deposit and Actual Deposit**

| | N | Mean | Std. Deviation | Variance |
|---|---|---|---|---|
| Budgeted Deposit | 5 | 2.59 | 12496.35 | 1.57 |
| Actual Deposit | 5 | 2.78 | 12986.03 | 1.68 |

The above table shows the statistical analysis of budgeted and actual deposit of the bank. The standard deviation of budgeted deposit is smaller than actual deposit. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of series a large standard deviation means just opposite. It shows that actual deposit is little more variable than budgeted deposit. Variance is the average squared deviations from the arithmetic mean and standard deviation is the root of variance. The effect of variance is: the smaller the value of variance ($\sigma^2$) the lesser the variability or greater the uniformity in the population so the budgeted deposits are more consistent and homogenous than actual deposits of the bank. In fact, the variance of actual deposit is greater than the budgeted deposit where the variance of budgeted deposit is 1.57 and actual deposit is 1.68. A greater variance is said to be more heterogeneous and less uniformity. The actual deposit is the nature of less variability than budgeted deposits since it is fluctuating every year.

Furthermore, another statistical tool Karl Pearson's coefficient of correlation (r) analysis is used to understand the relationship between budgeted deposit and actual deposit of the bank which is shown in following table:

**Table 4 Correlation between Budgeted and Actual Deposit**

| | | Budgeted Amount | Actual Amount |
|---|---|---|---|
| Budgeted Amount (X) | Pearson's Correlation (r) | 1 | .983** |
| | Sig. (2-tailed) | | .003 |
| | N | 5 | 5 |
| Actual Amount (Y) | Correlation (r) | .983** | 1 |
| | Sig. (2-tailed) | .003 | |
| | N | 5 | 5 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

The above table shows correlation between budgeted deposit and actual deposit of the bank. It shows there is positive correlation between these two variables. Since the actual deposit is based on the target of budgeted deposit the data of budgeted amount was assumed and proceed as independent variable 'X' and actual deposit was assumed and proceed as dependent variable 'Y' while analyzing data. The table shows there is positive correlation between budgeted deposit and actual deposit of the bank. The correlation (r) found as 0.983. It is positive in value so there is positive correlation between budgeted deposit and actual collected deposit. Actual deposit collection is depended on budgeted deposit. So the bank needs to make plan to collect sufficient deposit from the customers. In this scenario NIBL has formulated its plan to collect deposit that is also profit planning.

The previous paragraphs, tables and figures all show and analyzed the bank's planned deposit and actual deposit. Now, the researcher is interested to find out the growth of deposit in the current situation of the market. The following table shows the actual deposit collection and its growth during the research period.

**Table 5 Growth of Deposit of NIBL**

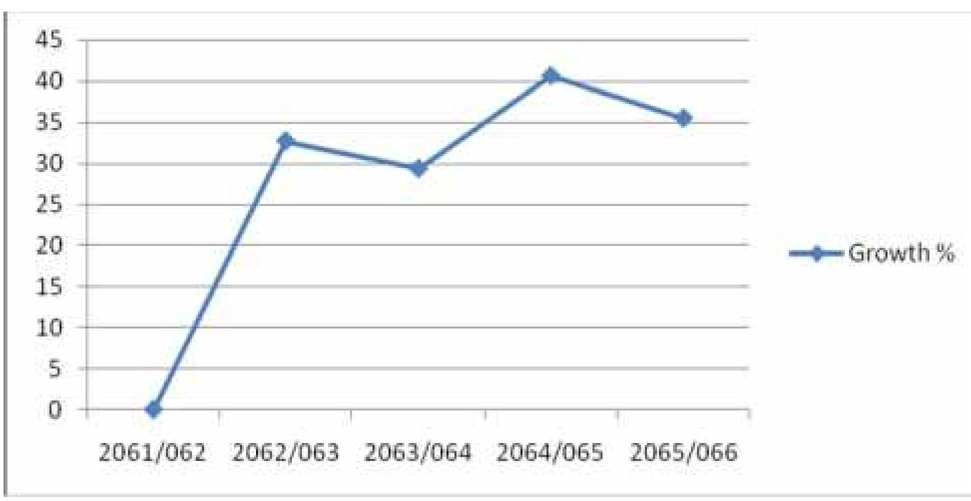
*(Rs. in million)*

| Fiscal Year | Deposit Amount (Rs) | Growth (Rs) | Growth % |
|---|---|---|---|
| 2061/062 | 14254.57 | - | - |
| 2062/063 | 18927.31 | 4672.74 | 32.78 |
| 2063/064 | 24488.86 | 5561.55 | 29.38 |
| 2064/065 | 34,452 | 9962.87 | 40.68 |
| 2065/066 | 46698.11 | 12246.38 | 35.54 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

The above table states that deposit collection amount of the bank is in increasing trend. In f/y 2061/062 the actual deposit amount is 14254.57 million; in f/y 2062/03 the bank has achieved its 32.78 percentage of growth, likewise in F/Y 2063/064 it again increased by 29.38 percentage, in F/Y 2064/065 it is increased by 40.68 percentage and in F/Y 2065/066 it is increased by 35.54 percentage of growth. It shows the bank has got success in deposit collection mission. To understand the increasing trend of deposit collection of the bank it is suitable to present the data in a line figure which is presented as below:

**Figure 4 Line Figure of Growth of Deposit**




The above line figure presents growth of deposits of the bank. According to above line figure, though the growth of deposit in amount is seen increasing it is fluctuating in the percentage. Growth percentage is in increasing trend  till F/Y 2064/065 where as decreased in F/Y 2065/066. We can assume that the bank is also affected by the financial crisis of the current market.

### 4.3 Resources Deployment Plan

Deployment of the resources refers to the 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:

i. Deployment for liquidity
ii. Deployment for income generating activities
iii. Deployment for other assets.

This is made for meeting expected withdrawl and other thing 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 has instructed commercial bank to mandatory maintain approximately 10% of their total customer deposit liabilities as liquid form(cash in vault and at NRB) for this study, cash and bank balance is grouped in one portfolio.

The Bank deploys major portion of resources in deployed for income generating activities popularly called as fund based exposure. The fund based exposure is classified in the following two portfolio:

**a. Loan advances and bills purchased (LABP)**

LABP includes all loans, advances, overdrafts, bills purchased/ discounted provisioning and other types of loans availed to the borrowers of the bank in return of which the bank earns interest income.

**b. Other investments**

Other investments include investment in shares, Treasury bill (TB), placement of fund on call market etc. 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 table shows the status of resources debtors by the bank over the period of study.

**Table 6 Status of Resources Deployment of NIBL**

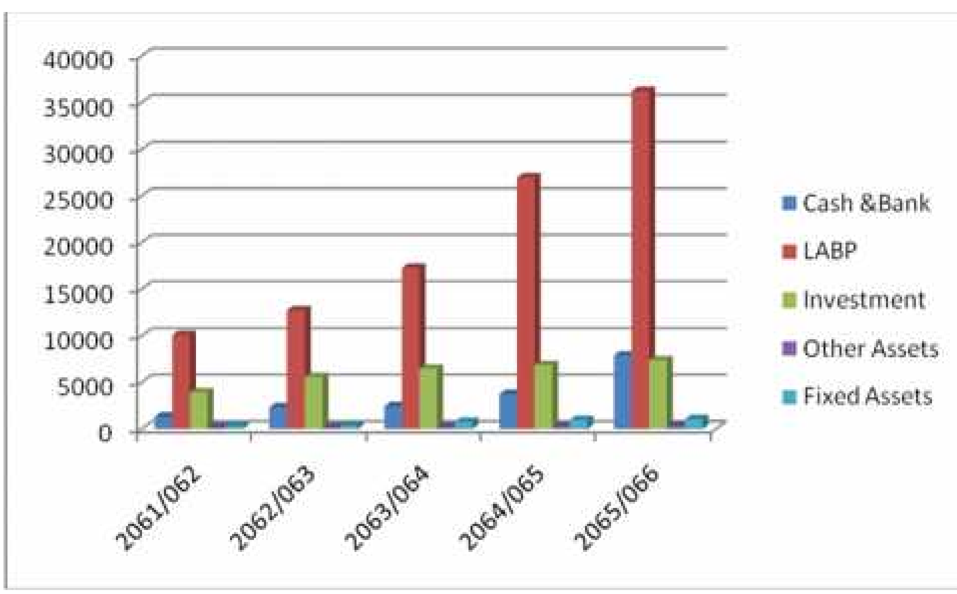
*(Rs in million)*

| F/Y | Cash &Bank | LABP | Investment | Other Assets | Fixed Assets | Total |
|---|---|---|---|---|---|---|
| 2061/062 | 1340.48 | 10126.06 | 3934.19 | 202.23 | 320.59 | 15923.6 |
| 2062/063 | 2335.52 | 12776.21 | 5602.87 | 201.1 | 343.45 | 21259.2 |
| 2063/064 | 2441.51 | 17286.43 | 6505.68 | 233.67 | 759.46 | 27226.8 |
| 2064/065 | 3754.94 | 26996.65 | 6874.02 | 276.84 | 970.09 | 38872.5 |
| 2065/066 | 7918.01 | 36241.21 | 7399.81 | 390.65 | 1060.75 | 53010.4 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

Above table shows the deployment of banks available resources at various portfolios among which the LABP, hold the biggest portion of the resources deployment. Deployment in investment and cash &bank value also has some contribution in resources deployment and the liquidity of the bank. The following bar diagram shows the status of different sources of deployment in the bank:

**Figure 5 Bar Diagram of Status of Resources Deployment of NIBL**



Above bar diagram shows the status of resource deployment of the bank. Where the line of LABP is in top position, the investment in various sector and cash & bank also has some contribution in resource deployment. During the research period the deployment in cash has been increased. Deployment in LABP has been highly increased and LABP in investment has also been in increasing trend. However, the deployment in other assets and fixed assets has slowly been increased. Since, the LABP is in highly increasing trend in compare with other deployment sectors, the researcher segregated the deployment into following two categories.

i. Deployment in LABP (LABP)
ii. Deployment in other sector than LABP (NLABP)

### 4.3.1 Deployment Status of LABP

Following table presents the budgeted amount of LABP and its achievement by the bank. The following table presents the data analysis between budgeted and actual amount of LABP:

**Table 7 Deployment Status of LABP**

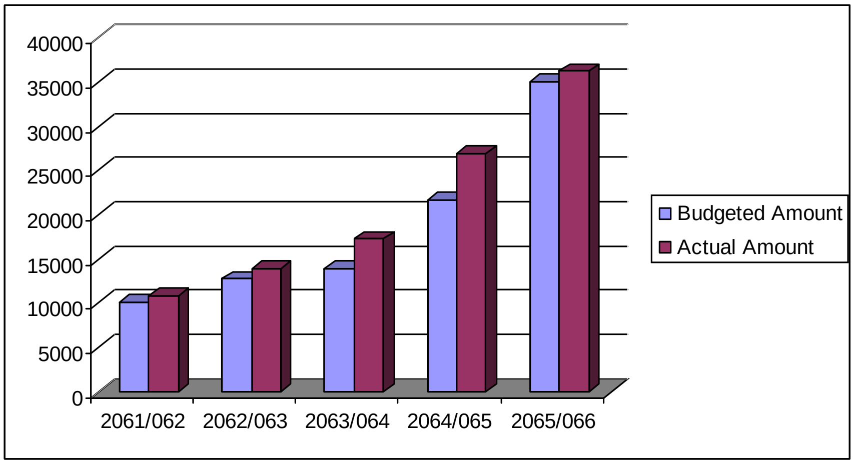
*(Rs in million)*

| Fiscal Year | Budgeted Amount | Actual Amount | Achievement (%) |
|---|---|---|---|
| 2061/062 | 10126.1 | 10875 | 107.39 |
| 2062/063 | 12776.2 | 13904 | 108.82 |
| 2063/064 | 14000 | 17286.43 | 123.47 |
| 2064/065 | 21750 | 26996.65 | 124.12 |
| 2065/066 | 35100 | 36241.21 | 103.25 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

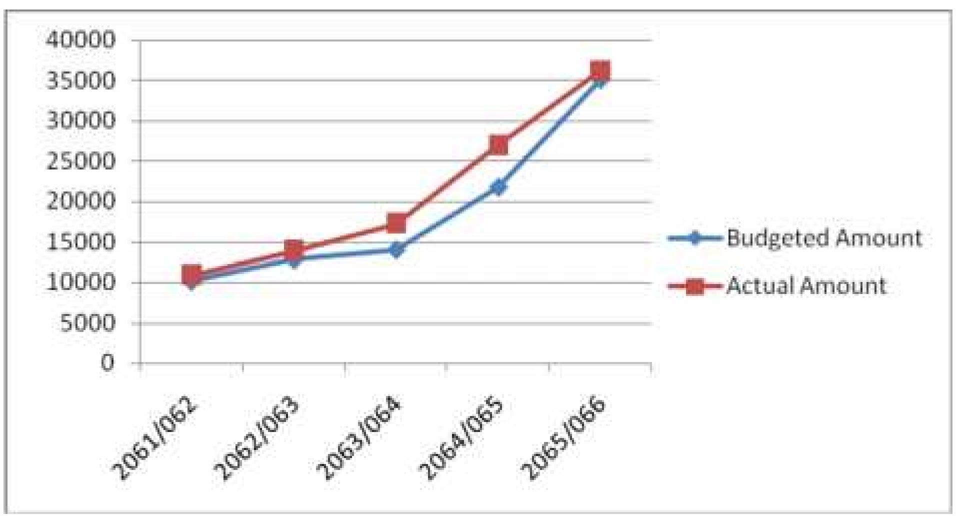
The above table shows that the bank LABP is in increasing order every year. The bank's actual achievement in LABP is also can be seen positive. The bank has achieved 107.39% in first year, 108.82% in second year. Likewise, the bank has achieved 123.47 % of achievement in third year, 124.47% in fourth year and 103.25% in fifth year. It shows the bank has success to meet its plan. It can give the profit to the bank. The same data can be seen by bar diagram presented as following figure:

**Figure 6 Bar Diagram of Status of LABP**




The above bar diagram shows the budgeted and actual amount of the bank. The bars in first two years in same status, but in third and fourth year i.e. F/Y 2063/064 and 2064/065 the actual amount higher than the targeted amount and in the last F/Y 2065/066 the two bars can be seen as equal. But the bank has achieved its plan.

**Figure 7 Scatter diagram of Status of LABP**




The line in the figure above shows that the budgeted and actual LABP has same status in first two years which is assumed as they are equal. In Third and fourth years two lines are scattered in different points. The actual LABP status points are higher than the projected LABP points. Again in the fifth year the data are closely scattered and the line is found nearly same. Anyway the bank has success to meet the target of LABP in real life situation.

**Table 8 Statistical Analysis of the Budgeted and Actual LABP**

| Statistical Analysis (SPSS) | | | | |
|---|---|---|---|---|
| | N | Mean | Std. Deviation | Variance |
| Budgeted LABP | 5 | 1.88 | 10111.18 | 1.02 |
| Actual LABP | 5 | 2.07 | 10809.98 | 1.17 |

The above statistical analysis table is based on budgeted and actual LABP of the bank. The actual LABP are more variable than predicted LABP since the variances of actual LABP is greater than the predicted LABP. The predicted LABP are more consistent and homogeneous than actual LABP. Likewise, the following table shows the correlation between budgeted and actual LABP of the bank:

**Table 9 Correlations between Budgeted and Actual LABP**

| | | Budgeted LABP | Actual LABP |
|---|---|---|---|
| Budgeted LABP (X) | Pearson Correlation (r) | 1 | .978** |
| | Sig. (2-tailed) | | .004 |
| | N | 5 | 5 |
| Actual LABP (Y) | Pearson Correlation (r) | .978** | 1 |
| | Sig. (2-tailed) | .004 | |
| | N | 5 | 5 |

**. Correlation is significant at the 0.01 level (2-tailed).

The above correlation analysis table shows that there is positive correlation between budgeted and actual LABP since the value of ‘r’ is found 0.978. It is positive in value at 0.01 level of significant.  It shows the actual LABP is based on budgeted deposit. The bank has met its target on the basis of budgeted amount. The bank has formulated its profit plan.

**Table 10 Growth of LABP**

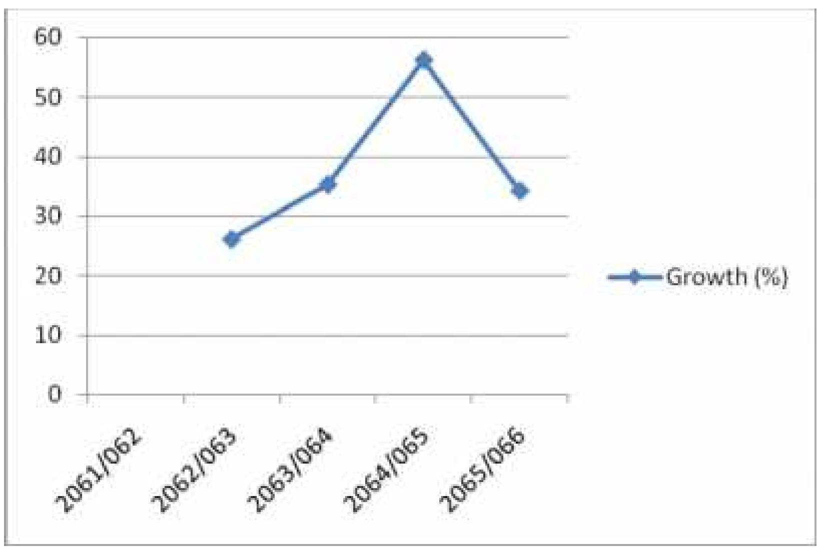
*(Rs in million)*

| Fiscal year | LABP | Growth (Rs) | Growth (%) |
|---|---|---|---|
| 2061/062 | 10126.06 | | |
| 2062/063 | 12776.21 | 2650.15 | 26.17 |
| 2063/064 | 17286.43 | 4510.22 | 35.30 |
| 2064/065 | 26996.65 | 9710.22 | 56.17 |
| 2065/066 | 36241.21 | 9244.56 | 34.24 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

Above table presents the growth of LABP of the bank. It shows the LABP is in fluctuating trend. The following line clears the LABP growth of the bank:

**Figure 8 Line Figure of Growth of LABP**




Above table shows that the LABP in amount is frequently increasing every year but fluctuating in percentage. It is in increasing trend till the fiscal year 2064/065 where as decrease in fiscal year 2065/066. The growth ratio in fiscal year 2064/065 was 57.17% and dropped to the ratio of 34.24% in the fiscal year 2065/066.

### 4.3.2 Actual Deposit vs. Actual LABP Status

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

Following table shows the actual balance of customer deposit mobilized 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.

**Table11 Status of Actual Deposit vs. Actual LABP**

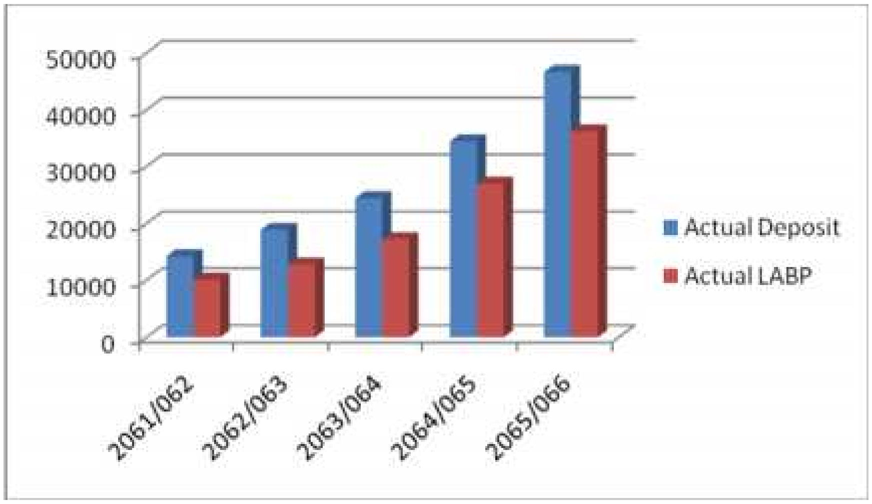
*(Rs in million)*

| Fiscal Year | Actual Deposit | Actual LABP | LABP to Deposit (CD) Ratio (%) |
|---|---|---|---|
| 2061/062 | 14254.57 | 10126.06 | 71.04 |
| 2062/063 | 18927.31 | 12776.21 | 67.50 |
| 2063/064 | 24488.86 | 17286.43 | 70.59 |
| 2064/065 | 34451.73 | 26996.65 | 78.36 |
| 2065/066 | 46698.1 | 36241.21 | 77.60 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

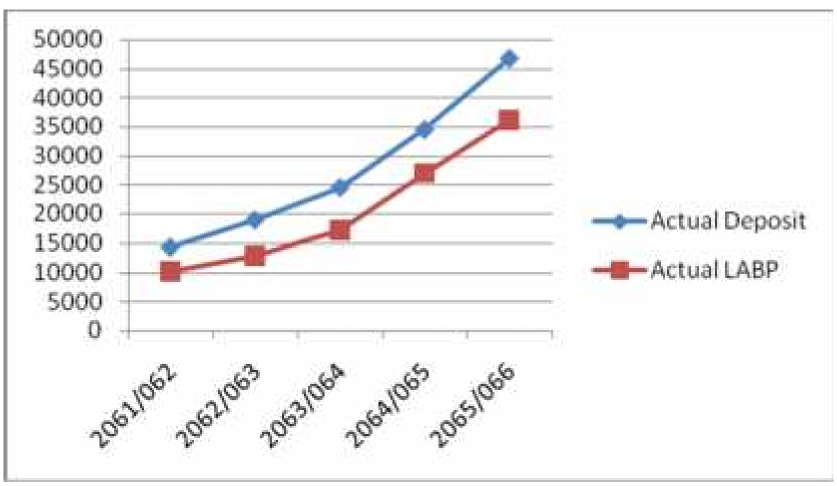
Above table shows the status of actual deposit and actual LABP of the bank. From the above table, it can be found that both the deposit and LABP are increasing. The actual deposits have more contribution in resource deployment than actual LABP since deposit amounts are greater than the LABP amounts. The CD ratio is in increasing trend its average value over the period is 73.02%. It is also in fluctuating trend. The data presented in above table can be seen through the bar diagram which is as follows:

**Figure 9 Bar figure of LABP vs. Actual Deposit**




The bar diagram clears that both the actual deposits and actual outstandign LABP are in increasing trend. The actual deposit bar is higher than the actual LABP bars. The relation between actual deposit and actual LABP can be seen in line figure:

**Figure 10 Line Figure of LABP vs. Actual Deposit**




The line figure shows the actual deposit and actual LABP are in increasing trend but actual deposit line is higher than the line of actual LABP. It means the deposit has more contribution in resource deployment. It is significant to analyze the relationship between deposit and outstanding LABP in order to find out the variability of actual deposit and actual outstanding LABP of research period. The SPSS is used to analyze the data of actual deposit and actual LABP which is as follows:

**Table 12 Statistical Analysis of Actual Deposit and Actual LABP**

| | N | Mean | Std. Deviation | Variance |
|---|---|---|---|---|
| Actual Deposit | 5 | 2.78 | 12985.99 | 1.69 |
| Actual LABP | 5 | 2.07 | 10809.98 | 1.17 |

The above table shows the statistical analysis of actual deposit and actual LABP. The mean of actual deposit is found 2.78 and the mean of actual LABP is found 2.07. Likewise, the variance of actual deposit is 1.69 and the variance of actual LABP is found 1.17. In this stance, actual deposits are more variable than actual LABP outstanding since the standard deviation and variance of actual deposit are greater than the standard deviation and variance of actual LABP outstanding. Likewise, the correlation between actual deposit and actual LABP is as below table:

**Table 13 Statistical Analysis of Actual Deposit and Actual LABP**

| | | Actual Deposit | Actual LABP |
|---|---|---|---|
| Actual Deposit (X) | Pearson Correlation | 1 | .998** |
| | Sig. (2-tailed) | | .000 |
| | N | 5 | 5 |
| Actual LABP (Y) | Pearson Correlation | .998** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 5 | 5 |

**. Correlation is significant at the 0.01 level (2-tailed).

The above table shows correlation between actual deposit and actual LABP. The correlation between actual deposit (X) and Actual LABP (Y) shown in the above table presents that there is positive correlation between actual deposit and actual LABP. The resources deployment in LABP is dependent on the deposit collected by the bank.

### 4.3.3 Resources Deployment in Other Portfolio than LABP (NLABP)

Deployment in other portfolio than LABP includes cash and bank, money at call and short notice, investment, fixed assets, non banking assets and other assets. Following table shows the budgeted and actual figures of the resources deployed under this group over the period of study. The following table shows the status of budgeted and actual deployment of NLABP:

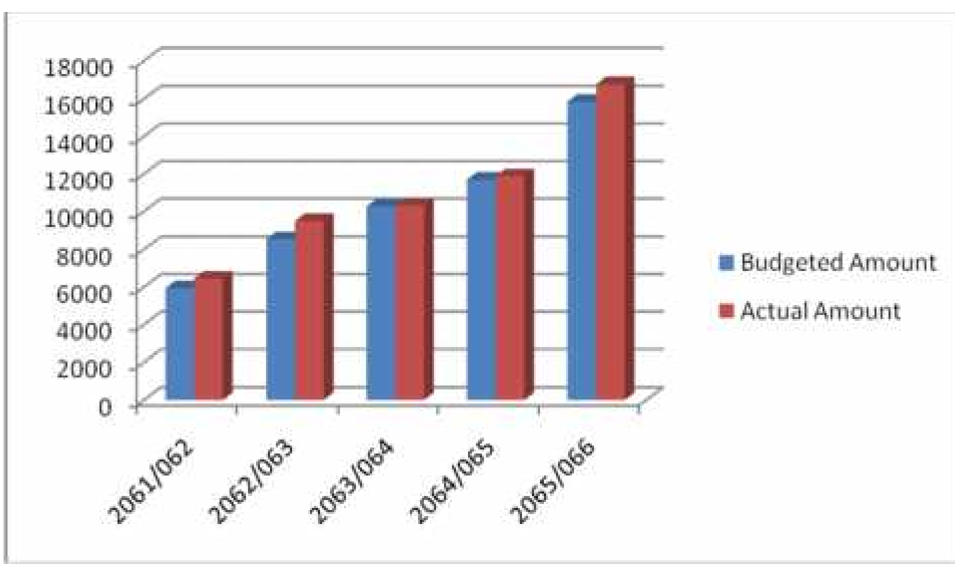
**Table 14 Status of Budgeted and Actual Deployment of NLABP**

| Fiscal Year | Budgeted Amount | Actual Amount | Achievement (%) |
|---|---|---|---|
| 2061/062 | 5937.48 | 6453 | 108.68 |
| 2062/063 | 8553.93 | 9501 | 111.07 |
| 2063/064 | 10270 | 10304.4 | 100.33 |
| 2064/065 | 11700 | 11883.4 | 101.56 |
| 2065/066 | 15850 | 16769.6 | 105.80 |

*Source: NIBL Annual Report 2061/062 to 2065/066*

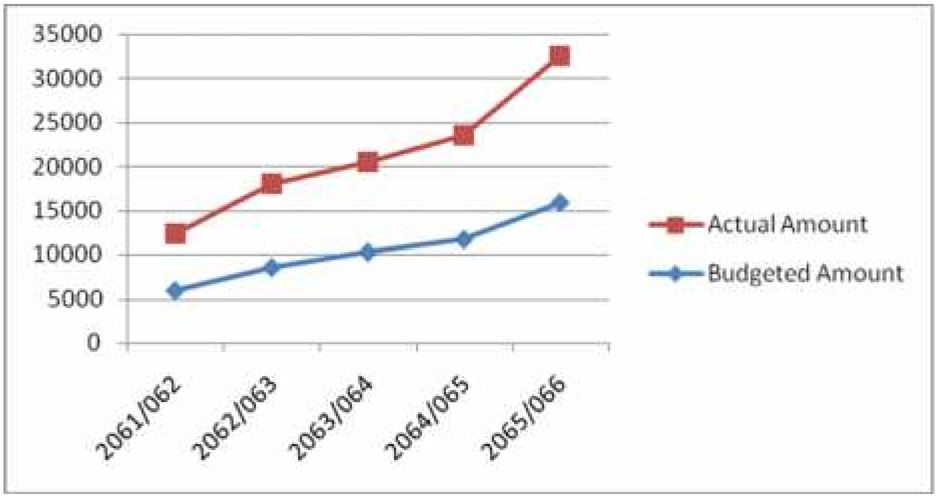
The above table shows that the bank has meet its target of resource deployment other than loan advances and bills purchase. NLABP is in increasing trend. It is presented in the following bar diagram:

**Figure 11 Bar Diagram of Status of Budgeted and Actual Deployment of NLABP**



The first bar on the above table shows budgeted NLABP amount and second one indicates actual achievement. The bar presents that there is no large gap between actual and budgeted amount of NLABP. Bank has met its target. The following line figure shows the achievement growth of NLABP on the basis of its budgeted amount:

**Figure 12 Line Figure of Achievement of NLABP**




The line in above figure presents that the achievement growth in NLABP is increasing every year. It clears that the bank is also get success in earning money in the field of NLABP.

## 4.4 Plan for Non funded Business Activities

Apart from the activities like advancing loans, overdraft, bills discounting and investment where funds are involved for income generation, there are other business activities too preferment by the bank which do not involve fund yet they are income generative. Such transactions are called non funded business of the bank. In such transactions, the bank has to take contingent liabilities on behalf of their customer for a fee/ commission, which are the income of the bank other than the interest income. Such income greatly contirbutes in reduction the expenses burden of the bank.

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

- Letter of Credit

- Bank Guarantee

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

### 4.4.1 Letter of Credit

A letter of credit is defined as a letter issued by the bank on behalf of the buyer in favour of the seller; expressing its definite undertaking to effect payment for specified amount provided the seller complies with the terms and conditions stipulated in the letter. LC is opened at the request of the buyer. An LC instills confidence in the mind of both buyers and sellers because it guarantees payment to the seller if terms and conditions are complied with. Similarly, the buyer (applicant) gets goods and services as per his specification; else he will be relieved of his liability to pay the bills. Non-compliance of terms and condition is called a discrepancy. If there are discrepancies, it is up to the buyer to decide whether to accept goods or not. LC has greatly contributed to the international trade. A bank takes adequate security from the buyer or should be satisfied with the credit standing of the buyer before issuing LC because it has to make payment to the seller in case of compliance of terms and conditions whether or not payment is made by the buyer. This risk undertaken by the issuing bank is called credit risk. This facility is enjoyed by the business customers. Sometime personal customers importing goods and services for personal uses my need this service.

**Table 15 Growth of L/C Business**

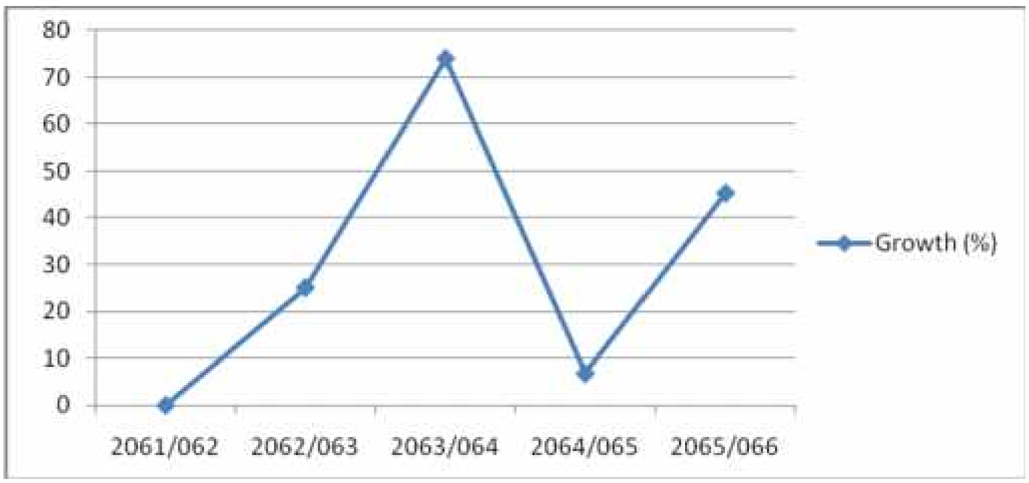
*(Rs in million)*

| Fiscal Year | L/C Amount | Increased/ Decreased Amount | Growth (%) |
|---|---|---|---|
| 2061/062 | 1816.96 | - | - |
| 2062/063 | 2272.76 | 455.8 | 25.08 |
| 2063/064 | 3955.49 | 1682.73 | 74.04 |
| 2064/065 | 4223.15 | 267.66 | 6.77 |
| 2065/066 | 6136.74 | 1913.59 | 45.31 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

The table shows the L/C business of the bank. The amount of L/C is increasing every year. The growth of L/C is 25.08% in F/Y 2062/063, 74.03% in 2063/064, in 2064/065 it has not great growth percent i.e. 6.67% and in last F/Y 2065/066 it has growth of 45.31%. The L/C amount is increasing but the growth percentage is fluctuating during the research period.

**Figure 13 Line figure of Growth of LC**




The above figure presents the growth of L/C business of the bank. In the first three year the L/C business is in increasing trend but in the fourth fiscal year it decreased very lower point i.e. 6.7% and again in the fifth fiscal year it is increased by 45%. It is in fluctuating trend but the bank has earned profit from this sector.

### 4.4.2 Bank Guarantee

A guarantee is a definite and irrevocable undertaking by a bank on behalf of its customer to make payment up to a specified sum of money to the beneficiary on demand in case of default by its customer. A guarantee implies that the debtor fulfills the contract. However, the guarantee issued by the bank never guarantees that the debtor fulfills the contract. This is just a guarantee of financial compensation to the creditor caused by debtor's non performance. Non fulfillment of the contract by the debtor causes loss to the creditor. Hence, the creditor asks for the guarantee issued by a bank so that his/her loss is financially compensated. The need of a bank guarantee arises mostly in business. Sometimes personal customer also may need a bank guarantee. By providing guarantee facility bank charges certain amount of money from the applicant customers through which they earn a huge amount of money without investing any capital. The bank which has planned to accept appropriate guarantees can generate more profit. Following table shows the outstanding bank guarantee of the research period:

**Table 16 Growth in Bank Guarantees**

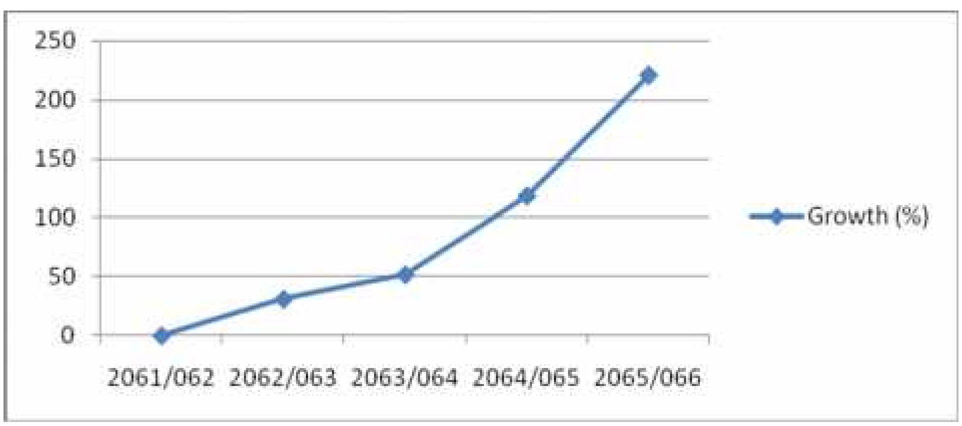
*(Rs in million)*

| Fiscal Year | Outstanding Bank Guarantee (Rs) | Increase/ Decrease (Rs) | Growth (%) |
|---|---|---|---|
| 2061/062 | 109.96 | - | - |
| 2062/063 | 144.12 | 34.16 | 31.07 |
| 2063/064 | 219.01 | 74.89 | 51.96 |
| 2064/065 | 478.86 | 259.85 | 118.65 |
| 2065/066 | 1537.29 | 1058.43 | 221.03 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

Above table presents the growth of bank guarantee of NIBL. Bank guarantee in 2062/063 is 31.075%. It is found 51.96% in 2063/064 which is in increased trend. Again the increasing trend of bank guarantee is very high. In fiscal year 2065/066 its growth is increased by 221.03%. It clears that the bank has high transaction of bank guarantee and profit earned by bank. Since, bank guarantee is non-funded business the bank can earn money without invest in assets. So it has a great value in earning profit. In another side the bank should bear the risk also while bearing the guarantee.

**Figure 14 Growth of Bank Guarantee**



The above figure presents the growth of guarantee business of the bank. The bank has got success to earn a huge amount of profit in this sector. The growth line is in regularly increasing trend.

## 4.5 Revenue Planning

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

i. Income from commission and discount
ii. Income from interest earnings
iii. Income from exchange
iv. Other operational income
v. Other non-operating income

**Table17 Income Trend of the Bank**

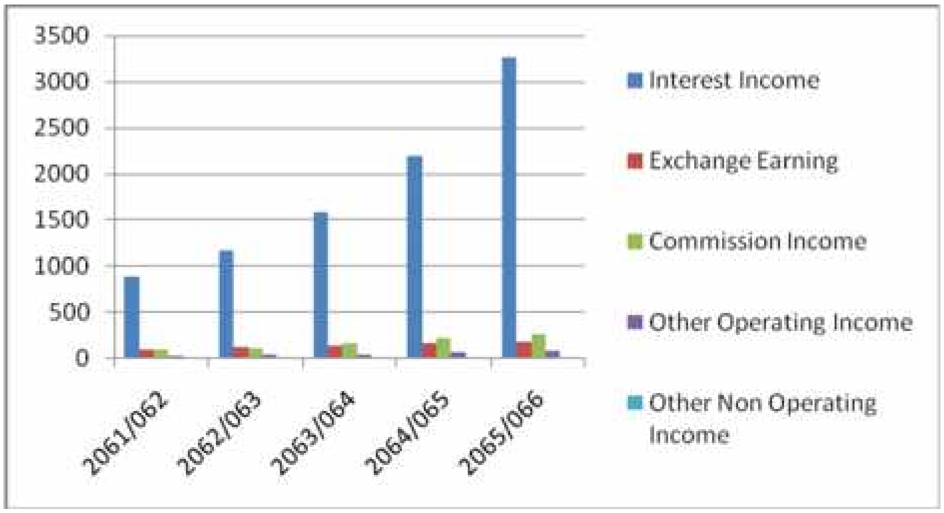
*(Rs in million)*

| Revenue Year | 2061/062 | 2062/063 | 2063/064 | 2064/065 | 2065/066 |
|---|---|---|---|---|---|
| Interest Income | 886.8 | 1172.74 | 1584.99 | 2194.28 | 3267.94 |
| Exchange Earning | 102.52 | 125.75 | 135.36 | 165.84 | 185.33 |
| Commission Income | 93.55 | 115.94 | 163.9 | 215.3 | 262.79 |
| Other Operating Income | 25.57 | 35.9 | 47.32 | 66.38 | 87.57 |
| Other Non Operating Income | 6.19 | 0.39 | 1.43 | 7.05 | 2.95 |
| Total Revenue | 1114.63 | 1450.72 | 1933 | 2648.85 | 3806.58 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

Income trend of the bank is presented in above table. It shows the total revenue of bank has been increasing during the research period. In F/Y 2061/062 it was 1114.63 million but in F/Y 065/066 it is 3806.58 million. There are different sources of revenue collection of the bank. Interest income is the main source among them. Likewise, exchange earning, commission, other operating income and non-operating income are the sources of revenue collection of the bank.

**Figure 15 Income Trend of the Bank**




Above bar diagram shows the income trend of bank. It proves that income of the bank is in increasing trend. Among the various sources interest income is the main source which we can find out by the same figure. Bank generates income by providing long term and short term loan to its clients.

### 4.5.1 Interest Income

An interest income consists with the income which is generated by lending the money as loan and advances to the clients of the bank. Interest income contributes the major portion of revenue of the bank. It is also called yield on fund. Bills discounting is also one part of advances. Therefore, of this study purpose the researcher has 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 amount (YOF). In this context the researcher analyzed the comparative status of total YOF with the total LABP by the help of following table:

**Table 18 Interest income to Actual LABP**

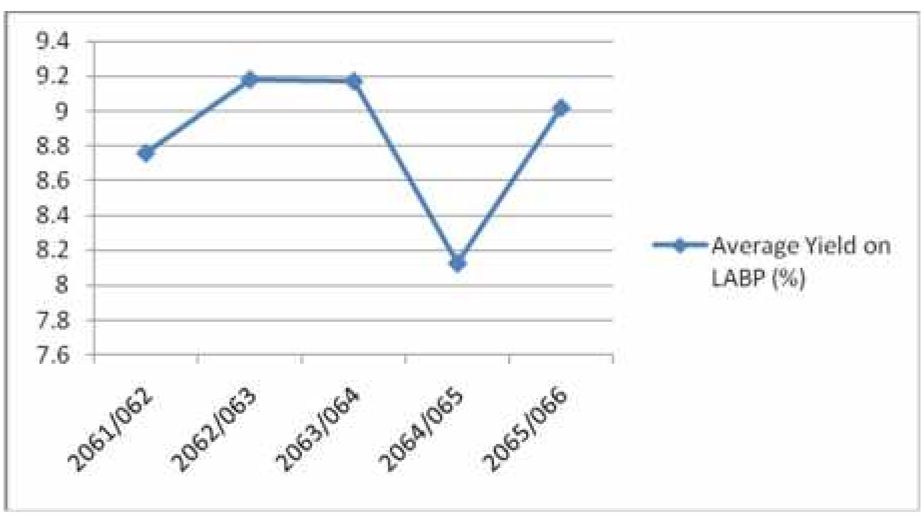
*(Rs in million)*

| Fiscal Year | Interest Income | Actual LABP | Yield on LABP (%) |
|---|---|---|---|
| 2061/062 | 886.8 | 10126.06 | 8.76 |
| 2062/063 | 1172.74 | 12776.21 | 9.17 |
| 2063/064 | 1584.99 | 17286.43 | 9.18 |
| 2064/065 | 2194.28 | 26996.65 | 8.13 |
| 2065/066 | 3267.94 | 36241.21 | 9.01 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

Above table shows the interest income and actual LABP of the bank. The yield in first year is 8.76 %. It is 9.17% in second year, 9.18%. It has increased up to third fiscal year but in fourth year again it is decreased which is 8.13% and in last year i.e. F/Y 2065/066 it is 9.01%. Anyway it is in increasing trend since the growth percentage in fifth year is greater than the yield of fourth year. The average yield on LABP is found 8.85%.

**Figure 16 Interest Incomes to Actual LABP**




The above line bar shows the yield on LABP. We can analyze that the line of yield is in increasing trend in the first three years and decreased in fourth year again it is in increasing trend. So it is fluctuating.

**Table 19 Statistical Analysis of Interest income to Actual LABP**

| | N | Mean | Std. Deviation | Variance |
|---|---|---|---|---|
| Interest Income | 5 | 1.82 | 946.26 | 8.95 |
| Actual LABP | 5 | 2.07 | 10809.98 | 1.16 |

Above statistical analysis table shows the standard deviation of interest income and actual LABP are respectively as 946.26 and 10809.98. The variance of interest income is 8.95 and the variance of actual LABP is 1.16. Here, the variance of actual LABP is greater than the variance of interest income. So the actual LABP are more variable than interest income.

### 4.5.2 Income other than Interest Income

Though the interest is main source of income of the bank there are many other sources of income beside it. Such sources like commissions, fees, charges, foreign exchange and other operating and non operating income of the bank are defined other income. The contribution of such income has been presented above in table 19.

## 4.6 Expenditure Planning of the Bank

Planning for expenses is most essential to maintain reasonable levels to support the objectives and planned programs of the bank. Expenses planning focus on the relationship between expenditure and the benefits derived from these expenditures. Bank has started preparing expenditure and revenue budget. The bank which makes proper expenditure plan can utilize the fund properly so that they can generate more profit. The areas of expenditure planning are interest expenses, staff expenses, operating expenses, non operating expenses, provision for staff bonus and provision for possible loan. Expenditure planning of the bank during research period is given below:

**Table 20 Status of Expenditure**

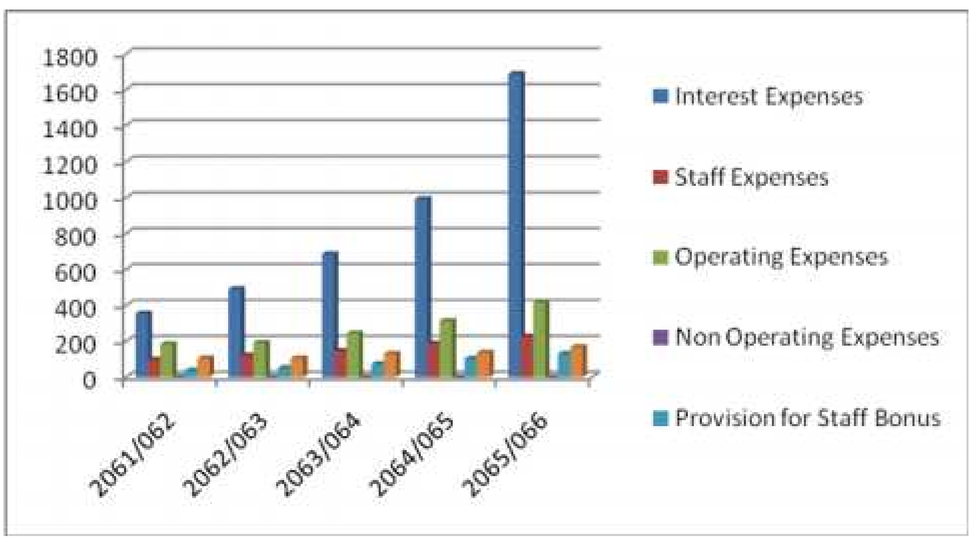
*(Rs in million)*

| Year/Expenses | 2061/062 | 2062/063 | 2063/064 | 2064/065 | 2065/066 |
|---|---|---|---|---|---|
| Interest Expenses | 354.55 | 490.95 | 685.53 | 992.16 | 1686.97 |
| Staff Expenses | 97 | 120.64 | 145.37 | 187.15 | 225.72 |
| Operating Expenses | 182.91 | 190.61 | 243.43 | 313.15 | 413.88 |
| Non Operating Expenses | - | - | - | - | - |
| Provision for Staff Bonus | 37.08 | 50.49 | 72.34 | 101.99 | 129.86 |
| Provision for Possible Loan | 104.41 | 103.81 | 129.72 | 135.99 | 166.2 |
| Total Expenses | 775.95 | 956.5 | 1276.39 | 1730.44 | 2622.63 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

Above table shows the expenditure status of the bank. In the early years the expenditure of bank was very low, it was 775.95 but every year the expenditure is increasing and in 2065/066 we can see it is 2622.63. It proves that the bank is not only earning money it has been facing the burden of high expenditure.

**Figure 17 Status of Expenditure**




The figure shows that the interest expense is higher than other expenses. In recent years the line of interest expenses is grown up in very huge gap. It can be analyze into two perceptive. One is the bank has collected a huge amount of deposit so the interest expenses is in highly increasing trend. On the other hand there is liquidity crisis in the market so the cost of deposit has been increasing in recent years. Likewise, Staff expenses and operating expenses are also in increasing trend. Since the networking and service area of bank are increasing the staff expenses and operating expenses are in increasing trend. Likewise other expenses are also in increasing trend.

### 4.6.1 Interest Expenses

Interest expenses refer to the payment of interest on the customers' deposits. Interest expenses are the expenditure incurred for making payment of interest to the deposit mobilized by the bank. As the customer deposit holds a major share on total resources of the bank, interest expenses is also highest among other total expenses of the bank. Now, the researcher analyzed the interest expenses to total deposit mobilized by the bank in following table.

**Table 21 Interest Expenses to Total Deposit (Cost of Deposit)**

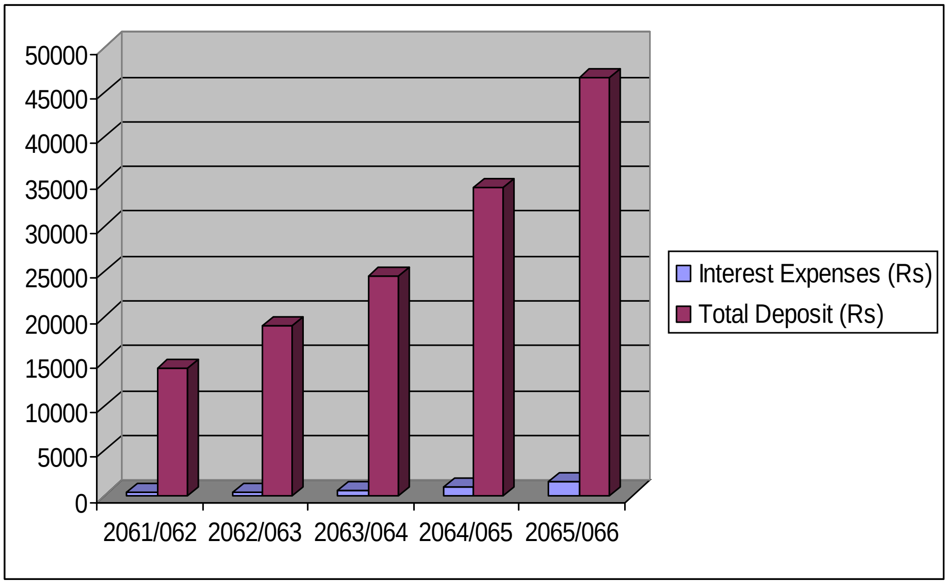
*(Rs in million)*

| Fiscal Year | Interest Expenses (Rs) | Total Deposit (Rs) | Cost of Deposit (%) |
|---|---|---|---|
| 2061/062 | 354.55 | 14254.57 | 2.48 |
| 2062/063 | 490.95 | 18927.31 | 2.59 |
| 2063/064 | 685.53 | 24488.86 | 2.79 |
| 2064/065 | 992.16 | 34,452 | 2.87 |
| 2065/066 | 1686.97 | 46698.11 | 3.61 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

Above table shows the interest expenses and total deposit. The cost of deposit is found 2.48%, 2.59%, 2.79%, 2.87% and 3.61% in the research period respectively. It clears that the cost of deposit is increasing. Since the deposit is in increasing trend where the interest cost is also in increasing trend. The cost of deposit has been increased in recent years so the bank has to bear a huge amount of interest expenses on deposit.

**Figure 18 Interest Expenses to Total Deposit**




The above bar figure shows both the total deposit as well as interest expenses are increasing every year. We can assume that there is positive correlation between deposit collection and interest expenses since the interest expenses is increasing while the total deposit has been increasing.

**Table 22 Statistical Analysis of Interest Expenses to Total Deposit**

| | N | Mean | Std. Deviation | Variance |
|---|---|---|---|---|
| Interest Expenses | 5 | 8.42 | 529.59 | 2.82 |
| Total Deposit | 5 | 2.78 | 12986.03 | 1.69 |

The above table shows statistical analysis of interest expenses to total deposit of the bank. The standard deviation of interest expenses is found 529.59 and the S.D. of total deposit is found 12986.03. Likewise, the variance of interest expenses is 2.82 and variance of total deposit is 1.69. The variance of the interest expenses is more variable than the variance of total deposit. There is similarity in interest rate. Interest rate has been increased but it has no vast different during the research period.

**Table 23 Correlations between Interest Expenses to Total Deposit**

| | | Interest Expenses | Total Deposit |
|---|---|---|---|
| Interest Expenses | Pearson Correlation | 1 | .989** |
| | Sig. (2-tailed) | | .001 |
| | N | 5 | 5 |
| Total Deposit | Pearson Correlation | .989** | 1 |
| | Sig. (2-tailed) | .001 | |
| | N | 5 | 5 |

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation study between interest expenses and the total deposit shows that there is positive correlation between total deposit and interest expenses. It means the more deposit collection the more interest is needed to be paid. Here, the correlation is .989 that is positive in value. The interest expense is depended on total deposit. The more deposit collection the more interest expenses have to bear by the bank.

### 4.6.2 Interest Spread of the Bank

Interest spread is the difference amount obtained by subtracting total interest expenses amount from total earning. It is the margin of net interest income of the bank. The interest spread during the research period of the bank is presented in following table:

**Table 24 Interest Spread of the Bank**

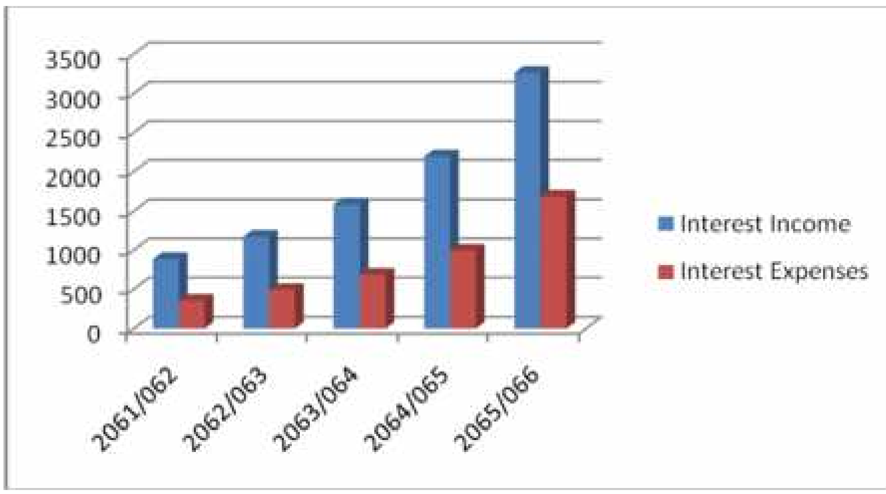
*(Rs in million)*

| Fiscal Year | Interest Income | Interest Expenses | Interest Spread |
|---|---|---|---|
| 2061/062 | 886.8 | 354.55 | 532.25 |
| 2062/063 | 1172.74 | 490.95 | 681.79 |
| 2063/064 | 1584.99 | 685.53 | 899.46 |
| 2064/065 | 2194.28 | 992.16 | 1202.12 |
| 2065/066 | 3267.94 | 1686.97 | 1580.97 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

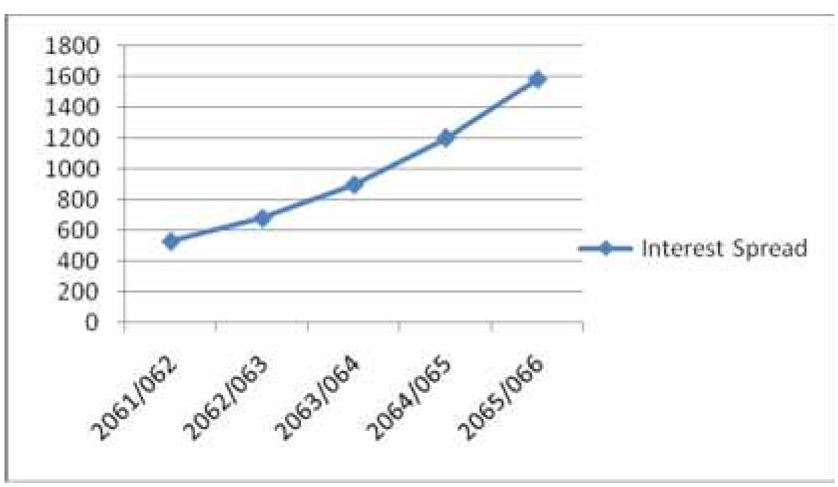
Above table states the interest spread of the bank. In this table we can see that the spread rate of interest is in increasing trend. Here we can easily understand that the interest income is higher than interest expenses. Spontaneously it has been increasing during the research period. In this situation the bank has met its target to earn profit. The following bar diagram presents the interest income and interest expenses of the bank:

**Figure 19 Bar diagram of Interest Spread of the Bank**




The figure shows the gap between interest income and expenses. In every fiscal year the interest income is higher than the interest expenses. It clears that the bank has success to meet its profit planning and control. Likewise, to clear the interest spread a line figure is presented below:

**Figure 20 Line Figure of Interest Spread of the Bank**



The above line figure shows interest spread of the bank. As presented in above figure 19 the interest income is greater than interest expenses the line of interest spread is in increasing trend as shown in the above figure proves that the bank has earned more profit.

## 4.7 Net Burden of the Bank

Burden is overall expenses of the bank expecting interest expenses incurred for the payment at deposit interest. This is the operation cost of the bank excepting cost of the bank. Excepting 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 burden of research period of the bank is presented in the following table.

**Table 25 Net Burden of the Bank**

*(Rs in million)*

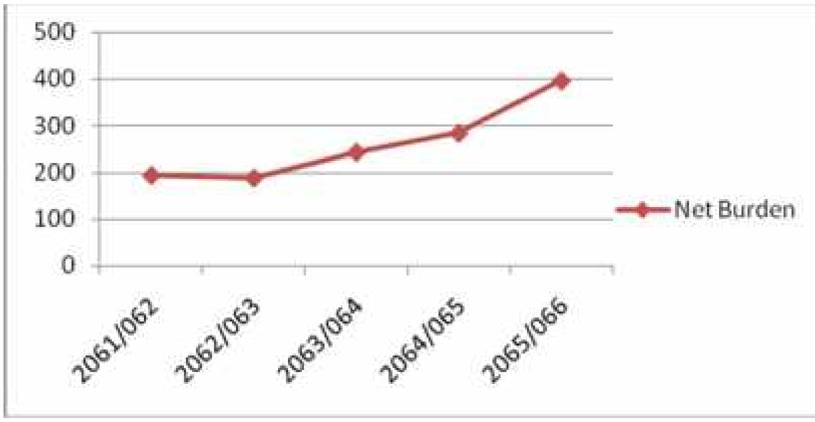
| Fiscal Year | Other Expenses | Other Income | Net Burden |
|---|---|---|---|
| 2061/062 | 421.4 | 227.83 | 193.57 |
| 2062/063 | 465.55 | 277.98 | 187.58 |
| 2063/064 | 590.86 | 348.01 | 242.85 |
| 2064/065 | 738.28 | 454.57 | 283.71 |
| 2065/066 | 935.66 | 538.64 | 397.02 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

The above table presents net burden of the bank. In this table net burden is determine by subtracting the other income from other expenses.

The other expense of the bank is found higher than the other income. The net burden is found 193.57 in first fiscal year, it is found 187.58 in second fiscal year, it is found 242.85 in third fiscal year, it is found 283.71 in fourth fiscal year and 397.02 in fifth fiscal year of the research period. The net burden of the bank during the research period is in increasing trend.

**Figure 21 Line Figure of Net Burden of the Bank**




Line on the above figure presents net burden of the bank. In this line net burden in first two fiscal years is in constant position but in the recent fiscal years it is in increasing position. This line also indicates that the bank's profit is in increasing trend during this period of time. The bank is able to bear the burden.

## 4.8 Net Profit Earned by the Bank

Profit is the means of survival of the organization. In fact it is the gap between income and expenses. In this context, the study has calculated the net profit beings the excess spread over the burden. Spread is the net interest (excess interest income over the interest expenses), and the net burden is the difference amount from other expenses and other income. The following table shows the status of profit of the bank during the research period.

**Table 26 Net Profit Earned by the Bank**

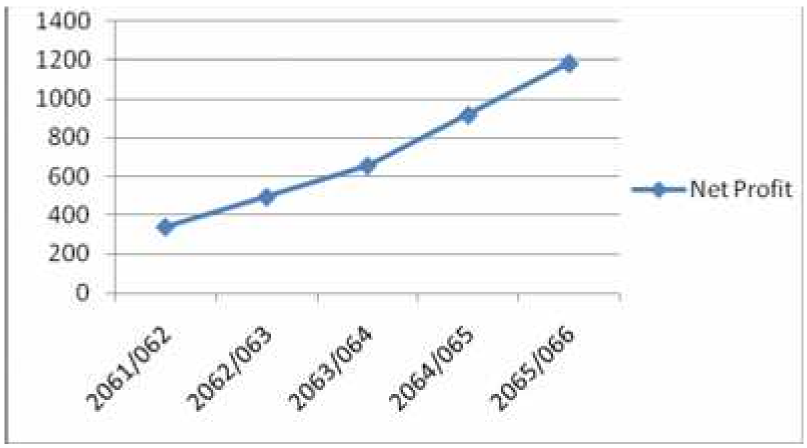
*(Rs in million)*

| Fiscal Year | Interest Spread | Net Burden | Net Profit |
|---|---|---|---|
| 2061/062 | 532.25 | 193.57 | 338.68 |
| 2062/063 | 681.79 | 187.57 | 494.22 |
| 2063/064 | 899.46 | 242.85 | 656.61 |
| 2064/065 | 1202.12 | 283.71 | 918.41 |
| 2065/066 | 1580.97 | 397.02 | 1183.95 |

*Source: Annual Report of NIBL, 2061/062 to 2065/066*

Above table shows the status of net profit earned by the bank during the research period i.e. fiscal year 2061/2062 to 2065/066. Net profit in this period can be easily seen in increasing trend. It is 338.68 in first fiscal year, in second fiscal year it is 494.22, in third fiscal year it is 656.61, in fourth fiscal year it is 918.41 and in final fiscal year it is found 1183.95. It is calculated by subtracting net burden by interest spread of the bank. The interest spread and net burden are separately in the previous table 22 and 23 respectively.

**Figure 22 Line Figure of Net Profit Earned by the Bank**




Line on the above figure is consisted to the net profit earned by the bank. In this figure we can easily predict that the bank has got success in the mission of earning profit. The net profit line has been growing up gradually in every fiscal year. In the first fiscal year of this research period net profit was below the 400 million but in the fifth fiscal year (2065/066) it is with the line of 1200 million. So we can say that the bank has been meeting its profit planning.

## 4.9 Performance Evaluation of NIBL

Performance evaluation of the bank is very important part of profit planning. Almost all the companies must prepare their performance report to show their overall performance during a fixed period of time. Basically, performance of bank can be checked by studying the financial status. There are many tools and techniques to observe the performance of the bank. Among of them following are some criteria:

i. Ratio Analysis

ii. Cost volume profit analysis

### 4.9.1 Ratio Analysis

A ratio is a relationship between two numbers e.g. ratio of A: B. Ratio by itself has no meaning. Hence a given ratio is compared to (a) ratios from previous years-internal trends, or (b) ratios of other firms in the same industry- external trends. The must frequently used ratios by financial analysis are as follows:

- Liquidity ratio
- Activity ratio
- profitability ratio and Capital structure ratio (leverage ratio)

#### 4.9.1.1 Analyzing Liquidity

Liquid assets are those assets that can be converted into cash quickly. The short term liquidity ratio shows the firm's ability to meet short term obligations. Thus a higher ratio would indicate a greater liquidity and lower risk for short term lenders. The rule of thumb is: current ration (2:1), quick ratio (1:1). While highly liquidity means that the company will not default on its short term obligations, note that by retaining assets as cash, valuable investment opportunities might be lost. In quick ratio we subtract the inventories from total current assets since they are least liquid.

i. Current Ratio= total current assets/Total current liabilities
ii. Quick Ratio = (Total current assets- Inventories)/Total current liabilities

**Table 27 Calculation of Liquidity Ratio**

*(Rs in million)*

| Fiscal Year | Current Assets | Current Liability | Current Ratio |
|---|---|---|---|
| 2061/062 | 16070.06 | 15210.48 | 1.06 |
| 2062/063 | 21388.63 | 19497.06 | 1.10 |
| 2063/064 | 28044 | 25321.55 | 1.11 |
| 2064/065 | 37548 | 35604.65 | 1.05 |
| 2065/066 | 49159.21 | 47907.53 | 1.03 |

*Sources: Annual Report of NIBL 2061/062 to 2065/066*

The above table shows status of current assets of the bank during the research period. The bank is able to maintain its liquidity position since the ratio of liquidity in every year is more than 1:1. The average current ratio is found 1.07. So the bank is able to meet the financial standard.

#### 4.9.1.2 Activity Ratio

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

**Table 28 Calculation of Employee Productivity Ratio**

*(Rs in million)*

| Fiscal Year | Actual Deposit | LABP Deployed | No of Employee | Deposit per Employee | LABP per Employee |
|---|---|---|---|---|---|
| 2061/062 | 14254.57 | 10126.06 | 353 | 40.38 | 28.68 |
| 2062/063 | 18927.31 | 12776.21 | 390 | 48.53 | 32.75 |
| 2063/064 | 24488.86 | 17286.43 | 514 | 47.64 | 33.63 |
| 2064/065 | 34,452 | 26996.65 | 622 | 55.39 | 43.40 |
| 2065/066 | 46698.11 | 36241.21 | 766 | 60.96 | 47.31 |

*Sources: Annual Report of NIBL 2061/062 to 2065/066*

The table shows employee productivity ratio. The deposit per employee and LABP per employee is increasing. The bank has adopted a policy to keep optimum number of human resources. The LABP per employee is also in increasing trend. So the bank has good profit planning.

#### 4.9.1.3 Capital Structure Ratio (Leverage Ratio)

It measures the production of outsider capital in financing the firm’s assets and is calculated by establishing 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 to finance its assets and is also indicates increasing obligations and known as risky firm. A firm must have sufficient margin of equity to pay the fixed charge and refund the borrowed funds in the maturing date. The following ratios are used to measure the long-term solvency position of NIBL with the help of past 5 years' financial data from the bank.

i. Debt to shareholders equity ratio
ii. Debt to total capital ratio

#### 4.9.1.4 Debt to Shareholders Equity

The debt equity ratio indicates the relationship between the long term funds provided by creditors and those provided by the firm's owner. The total debt refers to the total current liabilities plus the debenture and borrowing. It is commonly used to measure the degree of financial leverage of the firm and it is calculated as follows: Total debt to shareholders equity = Total debt/Shareholders equity

**Table 29 Debt to Shareholders' Equity**

*(Rs in million)*

| Fiscal Year | Total Debt | Shareholder's equity | Ratio in Times |
|---|---|---|---|
| 2061/062 | 15560.48 | 1412.32 | 11.02 |
| 2062/063 | 20047.06 | 1765.98 | 11.35 |
| 2063/064 | 26121.55 | 2379.51 | 10.98 |
| 2064/065 | 36654.65 | 3383.53 | 10.83 |
| 2065/066 | 48957.53 | 4808.46 | 10.18 |

*Source: Annual Report of NIBL 2061/062 to 2065/066*

The above table shows that shareholder's equity of the bank varies from maximum of 11.35 times in the fiscal year 2062/063 to the minimum of 10.18 times in fiscal year 2065/066 with an average of 10.87 times during the study period. It indicates that the bank has wish debt equity ratio, which means the creditors have invested more in the bank than the owner.

#### 4.9.1.5 Debt to Total Capital Ratio

This ratio shows the relation between the long term debt and total capital of the bank. Total capital includes shareholders' equity as well as long term debt. Long term debt includes debenture and borrowing. This ratio is variation of the debt equity ratio and gives the similar indication as the debt equity ratio.

It is calculated as:

Debt to Total Capital Ratio = Long Term Debt/Total Capital

**Table 30 Debt to Total Capital Ratio**

*(Rs in million)*

| Fiscal Year | LTD | Total Capital | Ratio (%) |
|---|---|---|---|
| 2061/062 | 350 | 1762.32 | 19.86 |
| 2062/063 | 550 | 2315.98 | 23.75 |
| 2063/064 | 800 | 3179.51 | 25.16 |
| 2064/065 | 1050 | 4433.53 | 23.68 |
| 2065/066 | 1088.80 | 5897.26 | 18.46 |

*Source: Annual Report of NIBL 2061/062 to 2065/066*

The above table shows debt to total capital ratio. It clears that debt to total capital of the bank varies from maximum of 25.16% in fiscal year 2063/064 to the minimum of 18.46% in fiscal year 2065/066 with an average of 22.18% during the study period. A low ratio represents security to creditors in extending credit on the contrary; a high ratio represents a greater risk to creditors as well as shareholders. It indicates the bank has wish debt to total capital ratio which means there is security to the creditors to extend their credit since the ratio is in decreasing trend.

#### 4.9.1.6 Profitability Ratio

Profitability is a relative term. It is hard to say “what % of profits” represents a profitable firm as the profits will depend on the product life cycle, competitive conditions in the market, borrowing costs, expenses management etc. Profits can also be analyzed using the framework of CVP. For decision making managers are concerned only with the present value of expected future profits. Past or current profits are important only as they help us to identify likely future profits, by identifying historical and forecasted trends of profits and sales. The profitability ratios of the bank are calculated to measure the operating efficiency and performance of the bank.

**Table 31 Calculation of Profitability Ratio**

*(Rs in million)*

| Fiscal Year | Net Profit | Total Assets | ROA (%) | Total Deposit | ROD (%) | Net Worth | NW to NP (%) |
|---|---|---|---|---|---|---|---|
| 2061/062 | 232.15 | 16274.06 | 1.42 | 14254.57 | 1.63 | 1180.17 | 19.67 |
| 2062/063 | 350.54 | 21330.14 | 1.64 | 18927.31 | 1.85 | 1415.44 | 24.77 |
| 2063/064 | 501.39 | 27590.84 | 1.81 | 24488.86 | 2.04 | 1878.12 | 26.70 |
| 2064/065 | 696.73 | 38873.31 | 1.79 | 34,452 | 2.02 | 2686.79 | 25.93 |
| 2065/066 | 900.6 | 53010.8 | 1.69 | 46698.11 | 1.93 | 3907.84 | 23.04 |

*Source: Annual Report of NIBL 2061/062 to 2065/066*

Above table presents the profitability ratio of the bank in terms of return on assets, return on total deposit and net worth of the bank. Return on assets is found increasing every year. Return on deposit is decreased in the last fiscal year but in previous year it has been increased. The net profit is 19.67 in F/Y 2061/062; it is 24.77 in second year, 26.70 in third year, it is 25.93 in fourth year and 23.04 in fifth year. The profit up to third year is in increasing trend but it is decreased in fourth and fifth year. Although it has been decreased the decreasing ratio is not high it is slowly goes down. The researcher felt that it is an effect of financial crisis of the world. So up to this condition we can say the bank has higher efficiency and capacity to better utilization of resources.

### 4.9.2 Cost volume Profit Analysis

The relationship between cost volume and profit is shown by cost volume profit analysis. It is an analytical tool for analyzing the relationship among cost, price, profit, sales and production volume. It has mainly three elements i.e. cost-volume-profit. It is highly essential for the management to have the complete knowledge about the interrelationship among the cost, volume and profit. It is extremely helpful in profit planning and control, management decision, cost control and budgeting control etc.

**Calculation of Cost Volume Profit Analysis**

| | Rs in Million |
|---|---|
| Total Interest Income | 9106.75 |
| Total Interest expenses | 4210.16 |
| Total Other Expenses | 3151.75 |
| Total other income | 1847.03 |
| Average yield on fund (YOF) | 8.85% |
| Average CD Ratio (%) | 73.02% |

| | | |
|---|---|---|
| Net Burden | = | Total Other Expenses - Total Other Income |
| | = | 3151.75 - 1847.03 |
| | = | 1304.72 |
| Interest Margin (Spread) | = | Total Interest Income – Total Interest Expenses |
| | = | 9106.75 – 4210.16 |
| | = | 4896.59 |

i. Now BEP in terms of interest income

| | | |
|---|---|---|
| BEP in % | = | (Net Burden/Spread)*100 |
| | = | (1304.72/4896.59)*100 |
| | = | 26.65% |
| BEP in Rs | = | Total interest income * BEP% |
| | = | 9106.75* 26.65 |
| | = | Rs. 2426.95 |

Hence, Break Even interest income level of the bank is Rs 2426.95 where the actual interest income of the bank is 3267.94 in F/Y 2065/066.

ii. Margin of Safety for the year 2065/066 is calculated as follows:

The soundness of business is indicated by margin of safety. The difference between total sales and break even sales is identified by margin of safety. The high margin of safety is good for business. It indicates that their can be substantial falling of sale and yet profit can still be made. On the other hand, if the margin of safety is small, it indicates the week position of business. The small margin of safety shows that even a small reduction in sale or production will adversely affect the profit position of business.

Margin of Safety = Total interest income - BEP income

= 9106.75 - 2426.95

= Rs. 6679.8

Again, Margin of safety ratio for the year 2065/066 as:

Margin of Safety Ratio = (Margin of safety/total interest income)*100

= (6679.8/9106.750*100

= 73.35%

Here, the margin of safety amount is Rs. 6679.80 and safety ratio is 73.35%. We can say it is the soundness of the bank.

iii. BEP in terms of Volume of LABP is as follows

BEP LABP Rs = BEP interest income/Average YOF

= 2426.95/0.0885

= Rs. 27423.16

iv. BEP in terms of volume of deposit

BEP deposit = BEP LABP/Average CD ratio

= 27423.16/0.7302

= 37555.68

The BEP in terms of volume of deposit is Rs. 37555.68 whereas the actual deposit of the bank in 2065/066 is Rs 46698.11.

## 4.10 Cash Flow Analysis

A cash flow statement is a statement of change changes in financial position on cash balance. It summarizes the cause of changes in cash position between dates of the two balance sheets. We can find out the net change in the cash position from the income statement and comparative balance sheets by making the adjustments for non cash items e.g. cash from operations can be found out by adding depreciation to net profit. Similarly, gain on sale of non current assets should be deducted while loss should be added to net profit.

When analyzing cash, look at how much cash was generated from operating activities, from cash generated, how much was used in investment activities and how much was needed in additional debt or used to pay down debt. It will give new overview angel on financial statements. It shows how the company obtained cash and for what purpose they were used. Thus cash balance at the end = Cash in the beginning + Net Cash flow from operating + Net cash flow from financing + Net cash flow from investing activities etc. The pros know that it is too easy to manipulate earnings numbers. So they focus on cash flow as being a more reliable indicator of performance because the cash is either there or it isn't. The cash flow statement of F/Y 2065/066 is presented in following table:

**Table 32 Cash Flow Statement of the Bank**

| **Previous year** | **Particulars** | **Current Year** |
|---|---|---|
| | **(A) Cash Flow from Operating Activities** | |
| 2 ,641,783,322 | 1. Cash Receipts | 3,803,634,711 |
| 2 ,194,275,722 | 1.1 Interest Income | 3 ,267,941,142 |
| 2 15,292,193 | 1.2 Commission and Discount Income | 2 62,791,664 |
| 1 65,838,748 | 1.3 Exchange Gain | 1 85,327,111 |
| - | 1.4 Recovery of Loan Written Off | - |
| 6 6,376,659 | 1.5 Other Income | 8 7,574,794 |
| -1,707,405,447 | 2. Cash Payments | -2,589,446,318 |
| -992,158,398 | 2.1 Interest Expenses | -1,686,973,130 |
| -187,149,985 | 2.2 Staff Expenses | -225,721,490 |
| -230,597,064 | 2.3 Office Overhead Expenses | -301,385,498 |
| -297,500,000 | 2.4 Income Tax Paid | -375,366,201 |
| - | 2.5 Other Expenses | - |
| **9 34,377,875** | **Cash Flow Before Changes in Working Capital** | **1,214,188,393** |
| -9,775,296,207 | Increase/(Decrease) of Current Assets | -9,885,946,540 |
| 3 62,970,000 | (Increase)/Decrease in Money at Call and Short Notice | - |
| -349,051,138 | (Increase)/Decrease in Short-term Investment | -519,363,075 |

| | | |
|---|---|---|
| -9,760,204,833 | (Increase)/Decrease in Loan and Bills Purchase | -9,297,852,674 |
| -29,010,236 | (Increase)/Decrease in Other Assets | -68,730,791 |
| 1 0,005,780,260 | Increase/(Decrease) of Current Liabilities | 12,273,134,884 |
| 9 ,962,870,496 | 1.Increase/(Decrease) in Deposits | 1 2,246,373,874 |
| - | 2.Increase/(Decrease) in Certificate of deposits | - |
| - | 3.Increase/(Decrease) in Short-Term Borrowings | 3 8,800,000 |
| 4 2,909,764 | 4.Increase/(Decrease) in Other Liabilities | -12,038,990 |
| **-303,659,210** | **(B) Cash Flow from Investing Activities** | **-240,162,782** |
| -24,692,500 | 1.(Increase)/Decrease in Long-term Investment | -4,325,000 |
| -279,799,210 | 2.(Increase)/Decrease in Fixed Assets (including Software)/ NBA | -237,443,757 |
| 8 32,500 | 3.Interest from Long-term Investment | 1 ,605,975 |
| | 4.Dividend Income | |
| **4 52,224,650** | **C) Cash Flow from Financial Activities** | **801,848,367** |
| 2 50,000,000 | 1. Increase/ (Decrease) in Long-term Borrowings (Bond, Debentures etc.) | - |
| 2 02,224,650 | 2. Increase/(Decrease) in Share Capital | 8 01,848,367 |
| - | 3.Increase/(Decrease) in Other Liabilities | - |
| - | 4.Increase/(Decrease) in Refinance/facilities received from NRB | - |
| - | (d) Income/Loss from change in exchange rate in cash and bank balances | - |
| **1 ,313,427,368** | **d) Income/Loss from change in exchange rate in cash and bank balances** | **-** |
| **2 ,441,514,200** | **e) Current Year's Cash Flow from All Activities** | **4,163,062,322** |
| **3 ,754,941,568** | **f) Opening Balance of Cash and Bank Balances** | **3,754,941,568** |
| **-** | **g) Closing Balance of Cash and Bank Balances** | **7,918,003,889** |

*Source: NIBL Annual Report F/Y 2065/066*

The above cash flow chart of fiscal year 2065/066 shows the cash flow of the bank is increased than the previous years. The cash flow from all activities in F/Y 2064/065 is

2441514200 but it is increased in 2065/066 which is Rs 4163062322. There is huge gap in increment in cash flow. In this point we can say that the bank is being strong because the more cash flow the more profit is earning capacity is gained by the bank. In the situation of liquidity crisis in the market the bank has got success to make this level of cash flow. The bank shows its strong financial standard since the cash flow statement is a tool to check the financial standard of the bank.

# CHAPTER V

# SUMMARY OF FINDINGS, CONCLUSIONS AND WAY FORWARD

This chapter presents the summary of the findings of the study, the researcher's conclusion of the study and way forward or some recommendations for the further study on the related topic. This research was conducted to meet such objectives:

- To highlight the current profit planning practices of the Bank.
- To explore the deposit mobilization status and variance of budgeted and actual achievement.
- To explore the resources deployment practices of the bank.
- To study the non-funded activities of the bank.
- To study the growth of the business of the bank over the period.

Quantitative research method and secondary data was used to explore the answers of such objectives. Basically, the annual reports of the bank and some data given by the bank managers were used.

## 5.1 Summary of the Findings

After the study on profit planning aspect of Nepal Investment Bank Ltd the researcher found that it is a leading commercial bank in Nepal as people believe in the market. Actually it is a very hard job for the bank to earn profit by using depositors' money as raw material. If depositors didn't trust to the banks they couldn't mobilize the resources and ultimately they couldn't earn profit and achieve the goal. Since, last some years the market has been suffering from the liquidity crisis. Obviously, the banks in Nepal have been facing the same problem as faced by the western banks and overall market.

In fact, there has been a tremendous upheaval in global financial market during some years. Under the onslaught of losses from exposure to sub-prime Mortgage Backed Securities (MBS), venerated institution such as Lehman Brothers has gone bankrupt while others like Washington Mutual and Merrill Lynch were sold hastily to avoid further bankruptcies. The spillover of the financial crisis from Wall Street to Main Street has led to severe economic contraction in major developed and emerging economies, and according to the International Monetary Fund (IMF) the world economy was projected the economic growth in 2009/10 at 0.5 percent- the slowest growth rate since World War II. The summary of the findings of this study could be known as the following points:

- During this period (F/Y 2061/062 to 2065/066), the bank has got success to meet its target even in the competitive market. The bank has impressive performance is due to the continuation of the corporate strategy to diversify into fee based income sources and continues consolidating the share of interest income.
- Besides its regular lending program the bank’s card business, treasury, remittance and international banking divisions have had strong organic growth and contributed significantly to its income.
- The bank has been giving attention to spread its network in different parts of the country. The bank has been adopting a policy to keep optimum number of employees as possible.
- The bank has more concentration on resources mobilization. In this respect they are incurring higher cost towards deposit mobilization. In comparison between budgeted and actual deposit amount of the research period, the amount of deposit has been increasing and the bank has met its targeted budget.
- In fourth fiscal year of the research period the bank had collected 118% deposit of targeted budget which is the highest rate during the period. But, the deposit amount in the fifth year i.e. F/Y 2065/066, the bank has hardly met the targeted budget in comparison with the previous fiscal years. It is just 101%. It shows the bank is slightly affected by the market liquidity crunch since the world has been falling down in to the financial crisis.
- The statistical analysis also found the standard deviation of budgeted deposit is smaller than actual deposit. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of series a large standard deviation means just opposite. The budgeted deposit trend is increasing in a same trend by the actual deposit is fluctuating.

- The correlation analysis shows there is positive correlation between budgeted deposit and actual deposit of the bank. Actual deposit is depended on budgeted deposit. It gives sense that there is deposit collection plan in the bank which is the major part of profit plan.
- Bank's resources deployment for non yielding liquid assets is increasing every year which is determined to profitability objectives, but it is supporting in meeting liquidity requirements of the bank.
- The bank has deployed its resources in various sectors like cash & bank, loan advances and bills purchase (LABP), investments, other assets and fixed assets.
- The deployment of bank's available resources at various portfolios among which the LABP hold the biggest portion of the resources deployment. In terms of LABP the bank's actual achievement in LABP can be seen positive. Deployment in investment, cash &bank value also has some contribution in resources deployment and the liquidity of the bank.
- The bank has achieved 107.39 % of achievement in the F/Y 2061/062,108.82 % in F/Y 2062/063, 123.47 % in F/Y 2063/064, 124.47% in F/Y 2064/065 and 103.25% in F/Y 2065/066 in terms of LABP.
- Correlation study between budgeted LABP and actual LABP shows there is positive correlation between these two variables. Analysis shows the actual LABP and budgeted LABP with the help of variation and standard deviation.
- The bank has been also involved in non funded business activities like LC and guarantee. The bank has earned huge amount of money through such business. The growth of LC business can be found 45.31% in the last fiscal year.
- The guarantee business can be found increased by 221.03% than the previous fiscal year.
- The bank has its revenue planning. The bank generates revenue through various activities like: income from commission and discount, income from interest earnings, income from exchange, other operational income and other non-operating income. Among these various sectors of revenue the bank has earned huge amount from

interest income. In fact, Interest income is that income which is generated by lending money to the customers.

- The bank has also its expenditure planning. Interest expenses, staff expenses, operating expenses, non operating expenses, provision for staff bonus, and provision for possible loan loss are the various sources of expenditure of the bank. The bank has made plan for these expenditure.
- An interest expense is the highest among total expenses items of the bank every year.
- Average cost of deposit of the bank is found to be increasing in first two years of operation but it has reduced gradually from other expenses. The cost of deposit is found 2.48%, 2.59%, 2.79%, 2.87% and 3.61% during the research period. Since the deposit is in increasing trend where the interest cost would be increased.
- Planning for expenses is most essential to maintain reasonable levels to support the objectives and planned programs of the bank.
- Expenses planning focus on the relationship between expenditure and the benefits derived from these expenditures. The bank which makes proper expenditure plan can utilize the fund properly so that they can generate more profit.
- In comparison, the interest income is greater than interest expenses of the bank.
- The bank has earned more profit by lending money in diversified portfolios. The interest spread is found strong so the bank has got success in earning profit.
- Interest spread has been increasing during the research period.
- Burden is overall expenses of the bank expecting interest expenses incurred for the payment at deposit interest. This is the operation cost of the bank excepting cost of the bank. Excepting 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 net burden of NIBL is found in increasing trend. The bank has easily faced such burden. It is found that the bank's net profit is increased.
- According to the financial analysis like ratio analysis, cost volume profit analysis and cash flow analysis the bank is found able to meet the financial standards.

- Liquidity ratio, activity ratio, profitability ratio and capital structure ratio (leverage ratio) were calculated to find out its financial performance.
- NIBL's average current ratio is found1.06 so the bank is able to meet its short term obligations and has sound liquidity position. Since the volume of business per employee is increasing every year the bank sufficient employee productivity. The bank has adopted to keep optimum level of employee.
- Debt equity ratio indicates the relationship between long-term funds provided by creditors and those provided by the firm's owners. The analysis table of debt equity ratio shows that debt to equity is varies with an average of 10.87 times during the study period. This analysis indicates the bank has high debt-equity ratio that means the creditors have invested for long term period. The creditors' investment is higher than the investment of the bank's owners.
- From the profitability ratio, it is found that the return on assets (ROA), the return on deposit and the net worth to net profit is found satisfactory. In the last fiscal year the ratio of return is decreased than previous years.
- The cash flow of F/Y 2065/066 of the bank is increased as double than the previous year. The bank can generate more profit when its cash flow is in increasing trend.

The bank has shown its wonderful performance in Nepalese banking industry. From the overall analysis of profit planning it is found that the bank is a leading profit making bank in Nepal. The high networking inside and outside the nation, innovative products, huge collection of deposit, effective deployment of resources, strong revenue and expenditure planning are the supportive factors of success of the bank.

## 5.2 Conclusions

The research was conducted with the aim of exploring profit planning practices of Nepal Investment Bank Ltd. Quantitative research approach was applied basically descriptive analysis tools like mean, standard deviation, variance and correlation analysis was used to analysis the data. Also the financial analytical tools like ratio analysis, BEP and cash flow analysis were used to carryout the research conclusion. The data was collected through the annual reports of the bank. Some data were collected by visiting the bank by the researcher.

On the basis of major findings of study some conclusion has drawn. The major conclusions are as follows:

- The bank has strong resource mobilization. Customer deposit collection is the main sources of mobilization. However, loans and borrowing are obtained from local banks, foreign banks central bank and other financial institutions, generally for a short period of time and the capital fund is raised from shareholder's equity.
- Profit planning and controlling system of NIBL is very effective because it has generated sufficient profit. There is variance in budgeted and actual performance of the bank but it has always crossed predicted figure. Actual deposit is also more than budgeted one. Analysis concludes that growth of bank is significant.
- The bank has deployed its resources in a proper way so it has been making comfortable liquidity as well as investing in income generating activities. Besides these the bank has invested in fixed assets, other operating assets, loan advances and bills purchase and so on. The bank not only earning profit by lending money but also it has been earning through the non-funded activities like LC and bank guarantee.
- The LABP of the bank is found positive. There is positive correlation between actual LABP and budgeted LABP.
- The bank has both revenue and expenditure plan. The interest income, commission, charges, fees are the main sources of revenue collection of the bank. Interest income is the main source of earning profit by the bank. Likewise, the interest expenses, staff expenses, loss loan provision, etc are the sources of expenditure. Among of them the interest expense is higher than others.
- The major income source is interest margin the trend of interest margin is increasing trend every year. The liquidity position of NIBL is better position bank has maintained the cash and bank balance to met the current obligations.
- Financial statement like ratio analysis, BEP and cash flow of the bank show the strong position of the bank during the research period. However, in the last year the performance of the bank is decreased. There is doubt whether the bank can maintain this level of profit in the future competitive age.

- The bank has been practiced its profit making plan. The effectiveness of its profit plan can be seen since it has wonderful performance during the research period.

## 5.3 Way Forward

The subject matter profit planning is a complex but a very common term in management especially in accounting. On the basis of planning of NIBL, the following ways are forwarded to improve the performance of the banks.

- Though the bank has been met its target in the previous years but now the market is very much competitive because day to day a lot of financial institutions have been established. So the bank must give attention to bring new innovation. The bank has been providing services to the customers as like other financial institutions. There is no specific product than other banks. So the bank must give attention to innovation
- The market has faced a great liquidity crunch so the expenses on deposit also have increased. In this situation the bank must formulate strong deposit collection plan by using wide networking in the rural part of the country so that it can earn more profit.
- The bank must give focus on non funded business activities like LC, guarantee, remittance and foreign exchange again because the bank has earned a great part of profit from this sector during the research period.
- The bank should pay more attention on the changing technological environment and need to provide innovative products and services that reduce the cost of fund it give more growth and profitability.
- The bank should give attention to invest on small and medium enterprises because it helps to generate more money and employment opportunities in the market.
- Nowadays there is a high competition among the financial institutions in the market so the bank must give attention to build competitive strategy in the market to increase its profit.

The research report is concluded with the above mentioned, summary of the findings, conclusions and the way forward.

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# ANNEX I

## 5 Years Principal Indicators

| Particulars | Indicators | F/Y061/062 | F/Y 062/063 | 063/064 | 064/065 | 065/066 |
|---|---|---|---|---|---|---|
| 1. Percent of Net Profit/ Gross Income | Percent | 20.26 | 23.99 | 25.07 | 25.33 | 22.97 |
| 2. Earning Per Share | Rs. | 39.5 | 59.35 | 62.57 | 57.87 | 37.42 |
| 3. Market Value Per Share | Rs. | 8 00 | 1,260 | 1,729 | 2 ,450 | 1 ,388 |
| 4. Price Earning Ratio | Ratio | 20.25 | 21.23 | 27.63 | 42.33 | 37.1 |
| 5. Dividend (including bonus) on share capital | Percent | 12.5 | 55.46 | 30 | 40.83 | 20 |
| 6. Cash Dividend on Share Capital | Percent | 12.5 | 20 | 5 | 7.5 | 20 |
| 7. Interest Income/ Loan & Advances | Percent | 7 .36 | 7.32 | 7.33 | 6 .93 | 7 .89 |
| 8. Staff Expenses/ Total operating Expenses | Percent | 34.65 | 38.77 | 37.39 | 37.41 | 3 5.29 |
| 9. Interest Expenses on Total Deposit and borrowings | Percent | 2 .43 | 2.52 | 2.71 | 2 .79 | 3 .53 |
| 10.Exchange Gain/ Total Income | Percent | 8.95 | 8.6 | 6.77 | 6.03 | 4 .73 |
| 11.Staff Bonus/ Total Staff Expenses | Percent | 38.22 | 41.84 | 49.76 | 54.5 | 5 7.53 |
| 12.Net Profit/Loan and Advances | Percent | 2.22 | 2.66 | 2.82 | 2.53 | 2 .45 |
| 13.Net Profit/Total Assets | Ratio | 1.42 | 1.61 | 1.79 | 1.77 | 1 .68 |
| 14.Total Credit/Deposit | Percent | 73.33 | 69.63 | 72.56 | 79.91 | 7 8.86 |
| 15.Total Operating Expenses**/ Total Assets | Percent | 1.71 | 1.43 | 1.38 | 1.27 | 1 .19 |
| 16.Adequacy of Capital Fund on Risk Weighted Assets | | | | | | |
| a. Core Capital | Percent | 8 .52 | 7.97 | 7.9 | 7 .71 | 8.56 |
| b. Supplementary Capital | Percent | 3 .06 | 4.01 | 4.26 | 3 .57 | 2 .68 |
| c. Total Capital Fund | Percent | 1 1.58 | 11.97 | 12.17 | 1 1.28 | 1 1.24 |
| 17.Liquidity (CRR) | Percent | 9.78 | 13.61 | 10.47 | 10.91 | 10.32 |
| 18.Non-performing credit/ Total credit | Ratio | 2 .69 | 2.07 | 2.37 | 1 .12 | 0 .58 |
| 19.Weighted Average Interest Rate Spread | Percent | 4.3 | 3.9 | 3.99 | 4 .00 | 3 .94 |
| 20.Book Net-worth | Rs. in '000 | 1 ,180,173 | 1,415,440 | 1,878,124 | 2 ,686,786 | 3 ,907,840 |
| 21.Total Shares | No. | 5 ,877,385 | 5,905,860 | 8,013,526 | 1 2,039,154 | 2 4,070,689 |
| 22.Total Staffs | No. | 353 | 390 | 514 | 622 | 766 |
| Book Value Per Share | Rs. | 201 | 240 | 234 | 223 | 162 |

## ANNEX II

*(Rs. in million)*

1. **Status of Budgeted and Actual Deposit Collection**

| Fiscal year | Budgeted Amount | Actual Amount |
|---|---|---|
| 2061/062 | 14254.57 | 14983 |
| 2062/063 | 18927.31 | 20432 |
| 2063/064 | 21000 | 24488.86 |
| 2064/065 | 29000 | 34452 |
| 2065/066 | 46100 | 46698.11 |

2. **Deployment Status of LABP**

| Fiscal year | Budgeted Amount | Actual Amount |
|---|---|---|
| 2061/062 | 10126.10 | 10875 |
| 2062/063 | 12776.20 | 13904 |
| 2063/064 | 14000 | 17286.43 |
| 2064/065 | 21750 | 26996.65 |
| 2065/066 | 35100 | 36241.21 |

3. **Status of Budgeted and Actual Deployment of NLABP**

| Fiscal year | Budgeted Amount | Actual Amount |
|---|---|---|
| 2061/062 | 5937.48 | 6453 |
| 2062/063 | 8553.93 | 9501 |
| 2063/064 | 10270 | 10304.41 |
| 2064/065 | 11700 | 11883.39 |
| 2065/066 | 15850 | 16769.60 |

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