

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Profit planning and control is viewed as a process designed to help management efficiently perform significant phase of the planning and control functions. The profit planning and control model involves 1. Development and application of broad & long range objectives of the enterprise. 2. Specification of enterprise goals. 3. Development of strategic long range profit plan in broad terms 4. Specification of tactical short range profit plan detailed by assigned responsibilities. 5. Establishment of a system of periodic performance report detailed by assigned responsibilities and 6. Development of follow-up procedures.

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

Planning is the first essence of management and all other function are performed within the framework of planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermine of future events. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary operation planning document. Committed performance budgets are called profit plan. Each manager and subordinate has the authority in varying degrees to make the decisions, the result of which will nearly accomplish or better his budgetary targets.

The excess income over expenditure is called profit. The word profit brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125).

The concept of profit is not new but the concept of profit planning and control is new word in business literature. It can be defined profit planning and control is a tool of management used in profit making organization. The managerial skill which increase revenues and minimize the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task.

Sound- controlled profit planning and control programs facilitate the management to keep a level of profits which will make certain the continuation of the business and the accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost " (Young Dong, 2001:74)

"A Profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared" (Niel, 2001:305).

Every business or institution is established on the definite goals and objectives. All the tasks are performed by company according to their objectives. Mainly two

types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activities of a nation can't be carried forward without support of the financial institutions.

Nepal SBI Bank Ltd. (NSBI) is first indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agriculture Development Bank of Nepal through a Memorandum of understanding signed on 17th July. NSBI was incorporated as a public limited company at the office of the Company Reg. No 17-049/50 with an authorized capital of Rs. 12 crores and was licensed by Nepal Rastra Bank 6 July 1993 under licensed no. NRB/l.pa./7/2049/50.

NSBI commenced operation with effect from July 7, 1993 with one full fledged office at Durbar Marg Kathmandu with 18 staff members. The staff strength has since increased to 324. Under the Banks & financial institution act, 2063, Nepal Rastra bank granted fresh license to NSBI classifying it as an "A" class licensed institution on April 26, 2006 under license no NRB/l.pra.ka.7/062/63. The Authorized and issued capitals has been increased to Rs, 100 crores and Rs.87.45 crores, respectively. The local promoters are Employees provident Fund and Agriculture Development Bank Ltd.

The management team and the Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement. Fifty percent of the total share capital of the is held by the state bank of India, fifteen percent is held by the Employees provident Fund, five percent is held by the Agriculture Development Bank Ltd and thirty percent is held by the general public. But now the five percent of the total share

held by Agriculture Development Bank is also purchase by State Bank of India. Presently State Bank of India has fifty five percent of total shares. So Nepal SBI is not only the joint venture it is now a subsidiary company of state bank of India (SBI) Nepal SBI Bank's, corporate office is located at Hattisar. The Bank at present has fourteen branches (including extension counter) in Kathmandu Valley and twenty six branches (including extension counter) out side valley.

Nepal SBI Bank Limited (NSBI). During last seventeenth years, the bank has confronted various banking scenarios, which is ever changing. The bank has been a pioneer in several banking innovations. "Visudda Banking aru kehi haina." has been the slogan and this has truly been implemented when it came to serving the valued customers keeping in view their comfort, time and effort. And provide pure Banking facility better than other bank.

Nepal SBI Bank Limited's policy is to extend quality and personalized service to its customers as promptly as possible. All customers are treated with utmost courtesy as valued clients. The bank, as far as possible, offers tailor-made facilities to its clients to its customers, Nepal SBI Bank has been adopting innovative and latest banking technology (FINACLE). This has not only helped the Bank to constantly improve its service level but has also kept it prepared for future adoption of new technology.

1.1.1 Nepalese Economy - Current Macro-Economic Condition

Nepal is a landlocked country located between two giant countries India and China having good potential in the tourism, hydropower and other business sector. The total area of the country is 147,181 Sq. Km. and only about 27 percentage of the total land area is under cultivation. Ecologically this country is divided into three regions: I) The Terai Region ii) The Himalayan Region iii) The Mountain Region and politically divided into five development regions, fourteen zones and seventy-

five districts. Nepalese economy is basically the agriculture based economy and the contribution of the agriculture sector in the total GDP is significant. The commercialization of the agricultural activities has not yet taken place. There is a wide gap in the distribution of agricultural land. Most of the farmers are landless and the major portion of the land is in the hands of few landlords.

The share of manufacturing sector in the total GDP is 10 percent. The Government of Nepal (previously called His Majesty's Government) has initiated liberal, open and market oriented economic policy since 1990s, immediately after the restoration of the democracy. The deteriorating law and order situation, political instability in the country in the past few years has adversely affected the country's economy. The government is required to make huge investment to develop the sufficient infrastructures like roads, powers, health and higher education etc. in order to make a favourable investment climate in the country. Because of the political unrest, Nepal has been facing very difficult situation. After a decade of insurgency, now the situation seems to be improved and business sector seems to be much hopeful about the economic growth. Most of the Nepalese are depends on the traditional agricultural sector and the population still reside in the rural areas being engaged in agriculture related survival economic activities. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, land locked position of the country, the political instability and the geography of the country.

1.1.2 Meaning and Importance of Financial Institutions

"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 resources for economic development; it maintains economic confidence of various segments and extends credit to people” (Gryuinskhi, 1993:87).

Bank is most important financial intermediaries which accepts the deposits from public and mobilize them in the productive sectors. Banks are the principal source of credit to household: individuals and family business all forms and local units of government. Financial intermediation is advanced to other forms of financing because it fulfills expectations of both savers and users it is the most popular form of moving excessive money from savers to users. Among all financial intermediaries commercial bank is the most leading one. "A bank is an organization whose major function is concerned with the collection of the provisionally idle money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while 'financial institutions' are authorized to do limited transactions only" (Dahal and Dahal, 2002:7).

1.1.3 Major Financial Policy 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.
- Addressing the fluctuation in short-term interest rates and the risks through Open Market operations.
- Maximum usage of the financial resources by the private sector.

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 varieties 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: 27).

1.1.4 Development of Banks

“The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC” (Paul, 1996:12). The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for the future and supplies loan to who are in the position to use it for productive purpose, Basically banks perform various types of services i.e. collection of deposits from the public supply loans to those investors who want to invest in business industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment , remittance services etc.

Nowadays banking sector is involving in the planning and construction of land housing. The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the Bank. Then after Government of Nepal and NRB has established the Nepal Industrial Development Corporation (NIDC) Capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of

Government of Nepal and Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank (Sharma, 2002:3). Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government of Nepal emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management .The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal indosez Banks ltd (now Nepal investment Bank limited). and Nepal Grindlays Bank Ltd.(Now Standard Chartered Bank ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking), is beyond imagination (Dahal & Dahal 2002:7).

1.2 Statement of the Problems

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business a whole. In our country, the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business

concerns including commercial banks. Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non fund based business activities of the bank.

This study has tried to analyze and examine the PPC side of commercial bank taking a case of Nepal SBI Bank Limited (NSBI). Furthermore the study has tried to answer the following research questions.

- Does Nepal SBI Bank Limited (NSBI) have appropriate profit planning system?
- What is the gap between budgeted and actual performance?
- Does the bank mobilize the deposit and other resources optimally?
- What is the trend of overall performance of Nepal SBI Bank Limited (NSBI)?

1.3 Objectives of the Study

This study is mainly concerned with budgeting system of Nepal SBI Bank Limited (NSBI). The fundamental objective of this study is to assess the budgeting system of Nepal SBI Bank Limited (NSBI). To study the application of comprehensive PPC system in Nepal SBI Bank Limited (NSBI). Apart from this following are the other objectives of the study: The basic objectives of this study will be:

- To identify the profit planning process adopted by Nepal SBI Bank Ltd.
- To sketch the trend of profit and loss.

- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the profit planning process

1.4 Profile of NSBI

Nepal SBI Bank was established in 1993 in joint venture with State Bank of India (SBI). NSBI is a major national level financial service provider engaged in various commercial banking services. We, a team 352 employees - move, lend, invest and protect money for over 200000 customers nationally and world wide. Now in the 17th year of its operation, the bank has been continuously upgrading the quality of its service delivery with the help of state-of-the-art technology and creating value for all stakeholders.

Extending NSBI reach to 21 districts through our 39 outlets comprising 32 branches 6 extension counters and a commercial branch (the first in Nepal), NSBI is among the largest banks in Nepal. In addition, NSBI serve its valued customers through delivery points like Automated Teller Machine (ATMs) which now 35 and e-banking services for both corporate and retail clients.

NSBI work as a joint venture partner of State Bank of India-India's largest bank, with over 203 years of history and expertise in banking-which has 55% ownership. The remaining shares are held by employees' provident fund or Nepal 15% and the general public 30%.

NSBI take up diverse social responsibility initiative apart from our regular banking business activities to establish ourselves as a responsible corporate citizen of this great nation.

The key elements of its share values in its business are to build an open and honest corporate culture and engage actively with all its stakeholders. NSBI aim is to achieve this by focusing on six key areas.

- Caring for customers' evolving needs and expectations by providing them with products and services.
- Creating a great place to work.
- Exemplary Governance and Accountability.
- Working in harmony and in mutual satisfaction with our Business Partners.
- Providing returns on the investment of our owners.
- Investing in local communities in which we operate for the benefit of the society at large.

Nepal SBI Bank's, corporate office is located at Hattisar. The Bank at present has fourteen branches (including extension counter) in Kathmandu Valley and twenty six branches (including extension counter) out side valley. The detailed with SOL ID are present bellow.

Table 1.1
Nepal SBI Bank Branch Location

SN	Branch	Sol ID	SN	Branch	Sol ID	SN	Branch	Sol
1	Durbarmarg	177	18	Damauli	199	35	Butwal	191
2	New Road	178	19	Dang	206	36	Baglung	197
3	Baneshwor	203	20	Dharan	190	37	Walling	198
4	Maharajjung	204	21	Gulmi	209	38	Bouddha	205
5	Kalanki	213	22	Hetauda	200	39	Surkhet	208
6	Patan	202	23	Ilam	211	40	Damak*	219
7	Bhaktapur	207	24	Itahari	212	41	Shishuwa*	223
8	Teku	192	25	Janakpur	188	42	Abukhaireni*	218
9	Gongabu	201	26	Narayangarh	194	43	Gaushala*	217
10	EOI Ext. counter	179	27	PPO Pokhara	184	44	Kuleshwor*	215
11	BGSN thamel	176	28	Nepalgunj	195	45	Gwarko*	216
12	BGSN Extension	196	29	Palpa	210	46	Dallu*	214
13	Commercial Branch	225	30	CGI Exten Birjunj	193	47	Dhangarhi*	222
14	Birjunj	180	31	PPO Dharan	186	48	Mahendranagar*	221
15	Biratnagar	185	32	Pokhara	189	49	Tikapur*	220
16	Bhairawa	187	33	Rampur	181			
17	Birtamod	182	34	Sishuwa	183			

**Proposed branch location and going to open recently.*

Despite the cut-throat competition in the Nepalese Banking sector, Nepal SBI Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

NSBI lives on in an institution that's Products such as Swarnim Bachat, Recurring deposit, Varista Nagarik Bachat, Vishes Bachat Khata, Indreni Bachat, Dhana viriddi, all Share holder khata etc. NSBI provide Visa Debit Card and Internet Banking Facility for self service facility. From e-Banking customer can Dr/Cr as per him/her self any time. Recently NSBI started NTC bill Payment system also. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal.

Branches of NSBI are integrated into Globes (developed by Tremens), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; NSBI has developed exclusive and proprietary online money transfer software- Basically in India Nepal SBI express Remit and other country work together Prabhu Money Transfer (PMT). In this current situation ATM helps to reduce the counter hit, and it help to fast service and quality service so NSBI increase its ATM service. The details of NSBI ATM present below:

Table 1.2
Nepal SBI Bank ATM location

S. N	Place	District	SN	Place	District
1	Durbarmarg	Kathmandu	26	PPO Dharan	Sunsari
2	Chuchhepati I	Kathmandu	27	Itahari	Sunsari
3	Gongabu	Kathmandu	28	Bpkihs Dharan	Sunsari
4	Army Camp Chhauni	Kathmandu	29	Birgunj	Parsa
5	New Baneshwor	Kathmandu	30	Narayangarh	Chitawan
6	BBSM	Kathmandu	31	Birtamod	Jhapa
7	Maharajgunj	Kathmandu	32	Bhairahawa	Rupandehi
8	BGSN Thamel	Kathmandu	33	Butwal	Rupandehi
9	Hotel Sangrila	Kathmandu	35	Sunauli	Rupandehi
10	Newroad	Kathmandu	34	Birendranagar	Surkhet
11	EOI Lainchaur	Kathmandu	36	Banke	Banke
12	Kalanki	Kathmandu	37	Dang	Dang
13	Teku*	Kathmandu	38	Tamghas	Gulmi
14	Gaushala*	Kathmandu	39	Palpa	Palpa
15	Dallu*	Kathmandu	40	Manipal College *	Kaski
16	Gwarko*	Kathmandu	41	Rampur*	Parsa
17	Balkhu*	Kathmandu	42	Baglung*	Baglung
18	Jawalakhel	Lalitpur	43	Waling*	Shyanga
19	Suryabinayak	Bhaktapur	44	Mahendranagar*	Kanchanpur
20	Ilam Bazar	Ilam	45	Dhangarahi*	Kailali
21	PPO Pokhara	Kaski	46	Tikapur*	Kailali
22	Mahendrapul	Kaski	47	Abukhairani*	Dhading
23	Hetauda	Makawanpur	48	Shishuwa*	Kaski
24	Biratnagar	Morang	49	Damak*	Ilam
25	Janakpur	Dhanusha			

**Proposed ATM location*

1.5 Rational of the Study

Achievement of objective in every organization depends on the application of available resources most effectively. Mobilization of internal resources is one of the key factors in economic and social development of a county. Financial institutions are the major players in this field. The more healthy banking practice in an economy, the better becomes the economic development. The research study

is connected with the profit planning in commercial banks with a case study of Nepal SBI Bank Limited (NSBI), with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

Profit planning is the heart of management. It tells us profit is the most important indicator for judging managerial efficiency and do not fast happened for this every organization has to manage its profits. Various functional budgets are the basic tools for proper planning of profit control over them.

Other research study may be useful for those who want to know PPC in the Nepal SBI Bank Limited (NSBI). It may also helpful for future researchers as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence, this study provides the guideline for the technique of profit planning.

1.6 Limitations of the Study

The study is confined to the budgeting and profits of Nepal SBI Bank Ltd. The following factors have limited in the scope of the study.

Analysis is concentrated on some managerial, financial and accounting aspects of the bank. It does not cover other aspects of the bank.

The comprehensive and the accuracy of the study is based on the data available form the management of Nepal SBI Bank and the response made by respondents on the research questionnaire.

This study is focused on profit planning of Nepal SBI Bank Limited (NSBI). So, it believes the past “patterns” and “trends” of bank report will recur in the future and can therefore be used for prediction purpose. Nothing is out from the limitation this study also is not an exception. Here researcher has tried to eliminate as far as possible yet here are some limitations these are as follows:

- The study focuses on profit planning and its application in Nepal SBI Bank Limited (NSBI).
- Since, the report is prepared in short time based on secondary data and some published sources, the outcome of the study may not be exactly this study covers the related date of the bank from FY 2059/60 to 2065/66.
- In this study, the sample of Nepal SBI Bank Limited (NSBI) is selected among all the commercial banks. But these may not represent the character of financial institutions.
- This study is analysis with the help of financial tools and few statistical tools.
- This study is meant only for the fulfillment of requirements Master of Business Studies (MBS)
- As detailed analysis and presentation requires enough time and high cost but due to financial and time constraint, this study could not use all the theory of profit planning.

1.7 Organization of the Study

The whole study is divided into five chapters, which includes:

Chapter I – Introduction

The first chapter deals with introduction. This includes Background of the study, Nepalese Economy - Current Macroeconomic Situation, Importance of Financial Institutions, Histories and Development of Banks in Nepal, Statement of problems, Objectives of the Study, Profile of Nepal SBI Bank Limited (NSBI), Rational of the study, Limitations of the study, Organization of the Study.

Chapter II – Review of Literature

Second chapter deals with the review of available literature. It includes review of books, reports, journals, previous unpublished thesis related websites etc.

Chapter III – Research Methodology

Third chapter explains the research methodology used in the study, which includes research design, resource of data, population and samples, methods of data analysis.

Chapter IV – Data Presentation and Analysis

The fourth chapter, which is the important chapter of the study, will be including presentation and analysis of data.

Chapter V – Summary, Conclusion & Recommendations

The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement and conclusion of the study. A bibliography and appendices will be attached at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Introduction

In this chapter, attempts have been made to review some of the basic literatures on budgeting theory including review of empirical evidence of previous studies. The researcher has presented the conceptual frame work about the commercial banks , its activities, banking practices, the legal and regulatory frame work, and profit planning concepts and its applicability in a commercial banking activities . In this connection, the researcher has reviewed various literatures in the form of books written by various authors, published newspapers, journals, browsing materials from the concerned web sites, NRB regulation, commercial act, NSBI old annual reports in the related subject matters.

2.2 Concept of Commercial Bank

Meaning of 'Bank ' in oxford dictionary says 'an establishment for keeping money and valuable safely, the money being paid out on the customer's order by means of cheques. According to commercial bank Act 2031 " Commercial banks as a bank which exchanges money, accepts deposits, funding loans and performs other commercial activities and which is not specially established with the objectives of co-operative, agricultural, industrial or any other of such kind of specified purpose" (Commercial Bank Act, 2031).

The major functions of commercial banks are as follows:

- Accepting various types of deposits
- Lending money in various sectors
- Letter of Credit
- Bank Guarantee

- Remittance
- Bills
- Others

The commercial bank act provided for the modalities of establishing a commercial bank, as per which, a commercial bank can be established under the company act as a limited company only with the recommendations of NRB , the central bank of Nepal . By the various definitions we can bring to a close that a commercial bank is set up to collect spread funds and employ them to creative sector.

2.2.1 NRB Regulation

Bank and financial institution regulation act 2063 has been introduced to supervision and control to bank and financial institution. This act was published in Nepal gazette on 2063/7/19 B.S. The main objectives of the act are as follows:

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
- To provide qualitative services by the means of healthy competition among the banks.
- To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

2.2.1.1 Prescribed Regulations for Commercial Banks

a) Capital Adequacy

The capital adequacy is one of the major criteria to operate the commercial banks. Notional required capital will be as specified in the licensing policy.

b) Loan loss Reserves

The commercial banks have to comply and maintain loan classification and provisioning as per the NRB regulations.

c) Reserve Requirements

Banks and agencies of banks are required to maintain some reserves like cash in vault; balances with Nepal Rastra Bank.

d) Reporting Requirements

Commercial Banks have to submit final annual report to Nepal Rastra Bank within 90 days after fiscal year end. Unless and until specified, other requirements are to submit reports as per NRB regulations. Quarterly financial reports should be published in national newspaper.

e) Systems and Policy Documents

Transparent systems, credit policy guidelines, borrowing guidelines, operational guidelines, risk management guidelines and other appropriate policies and guidelines need to be prepared, approved and implemented.

f) Technology and Technical Service

Modern technology and technical services should be applied by commercial banks as approved by NRB.

2.2.2 Evolution of Commercial Bank

The Latin word "Bancus", Italian 'Banca', French 'Banque' are the original form of the modern bank. According to some authors the word 'Bank ' is derived from all of above words the meaning of all words to a bench. This refers that early bankers transact their money lending activities on benches in the market exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word ' Banc' meaning joint stock fund (Varshney, 1993:145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their

liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof. Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositories for people's surplus fund and these temples were the centers for money lending transaction. The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D. was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D. (www.bankinginnepal.com).

The ancient Hindu scriptures refer to the money lending activities in the Vedic period in India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vishyas. The bankers in the Smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country (Vanish, 1996:183). In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. Tejarath Adda established during the Prime Minister Ranodip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from public but gave loans to employees and public. Banking in modern senses started with the

beginning of Nepal Bank limited (NBL) on B.S 1994. NBL had Heroic accountability of attracting people toward banking sector from pre dominant money lenders net and of increasing banking services. Nepal Rastra Bank (NRB) was established on B.S 2013.01.14 as a central bank under the NRB act 2012 B.S the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the health of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank. The first private financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development Corporation, established in 1957 initially as the Industrial Development Board, but converted in 1959 to its present form. It should be noted that technically the first legal financial institution in Nepal was the establishment of the Tejarath Adda in 1877, however it faced problems catering to the general needs of the population as it had the sole objective of providing credit only, with no deposits mobilized (NRB, 1996). The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing. Nepalese Financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, cooperative, NGOs and postal saving offices that undertake

limited banking and financial services. Non-bank financial sector comprises Funds, Trusts and thrifts like, Employee Provident Fund, Citizen Investment Trusts, and Mutual fund. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

Licensed Commercial Banks in Nepal

1. Nepal Bank Limited
2. Rastriya Banijya Bank
3. NABIL Bank Ltd.
4. Nepal Investment Bank Ltd.
5. Standard Chartered Bank Nepal Ltd.
6. Himalayan Bank Ltd.
7. Nepal SBI Bank Ltd.
8. Nepal Bangladesh Bank Ltd.
9. Everest Bank Ltd.
10. Bank of Kathmandu Ltd.
11. Nepal Credit and Commerce Bank Ltd.

12. Lumbini Bank Ltd.
13. Nepal Industrial & Commercial Bank Ltd.
14. Machhapuchhre Bank Ltd.
15. Kumari Bank Ltd.
16. Laxmi Bank Ltd.
17. Siddhartha Bank Ltd.
18. Agriculture Development Bank Ltd.
19. Global Bank Ltd.
20. Citizens Bank International Ltd.
21. Prime Commercial Bank Ltd.
22. Bank of Asia Nepal Ltd.
23. Sunrise Bank Ltd.
24. Development Credit Bank Ltd.*
25. NMB Bank Ltd. +
26. Kist Bank Ltd. +
27. Megha Bank Ltd.
28. Janta Bank Ltd.
29. Commerze and Trust Bank Ltd.
30. Civil Bank Ltd.
31. Century Bank Ltd.

* Upgraded by Development bank

+ Upgraded by Merchant bank & Finance

2.2.3 Existing Scenario of Banking Sector

As mention in the previous section, there are 31 commercial banks presently in operation. 2 commercial bank are has been registered in NRB and they are coming shortly in operation .Among these banks some are established under joint venture with foreign banks while some are fully domestic bank. Out of total commercial

banks, 6 commercial banks are with foreign joint venture rest of all are fully domestic banks. a) Capital Structure of Banks: The current regulation of NRB prescribes that all the new commercial banks are to be established in Kathmandu at national level should have minimum paid up capital Rs.2 billion, the existing banks in operation are required to enhance the capital level to Rs 2 billion by the end of F/Y 2065/66 BS. For this purpose and objective all the commercial banks have furnished their plans to enhance the level of capital accordingly. In the mean time, there are separate provisions on capital requirements for the national level banks to be operated outside the Kathmandu. b) Banks under foreign participation: All together nine banks were established under foreign participation in Nepal but three of these have divested their stake to Nepalese promoters. Six banks still have foreign joint ventures. The banks operation under foreign participation is NABIL, Standard Chartered, Himalayan Bank, Nepal SBI bank, Everest Bank and Nepal Bangladesh Bank. Initially, Bank of Kathmandu, Nepal Credit and Commerce Bank and Nepal investment Bank were also established under foreign joint venture. The banking asset with the foreign joint venture banks is gradually increasing. As of July 2005, the commercial banks under foreign participation hold 37.54 percent of total banking assets. The deposits and credits are still of greater proportion. Foreign joint venture banks possess 39.35 percent of total deposits and 38.45 percent of total credit of their banking system (www.bankinginnepal.com.np).

2.2.4 Domestic Legal Provisions Regarding Banking Sector

Nepal Rastra Bank Act, 2002 has given full authority to the Nepal Rastra Bank regarding regulation, inspection and supervision of the banks and financial institutions. Bank and financial institution ordinance 2060, which is popularly known as Umbrella Act, has recently been enacted in unified form. Agricultural Development Bank Act, 1967. Commercial Bank Act, 1974, Finance Company Act, 1986, Nepal industrial Development Corporation Act, 1990 and Development

Bank Act 1996 have been repealed with the promulgation of this ordinance. The ordinance governs the functional aspect of banks and financial institutions. Some of the important provisions in the ordinance regarding the banking sector have been analyzed in the chapter as follows: Any person wishing to incorporate a bank or financial institution to carry on financial transactions should incorporate a bank or financial institution as a registered public limited company under the prevailing law of Nepal with prior approval of NRB by fulfilling the conditions prescribed in section 4 of the ordinance. The individual desiring for the incorporation of such entity is required to submit an application to NRB for prior approval with the prescribed documents.

The NRB is required to conduct necessary investigation and grant permission to establish a bank or financial institution with or without terms or conditions if all the criteria are met and information of disapproval with reason is also to be given to the concerned person in case the application is denied. Similarly , any foreign bank or financial institution wishing to establish a bank or financial institution by making joint venture investment with a corporate body incorporated in Nepal or with Nepali citizen or as subsidiary company with 100 % share is eligible to furnish the application to establish a bank or financial institution. However, the ordinance is silent about the percentage of equity investment in joint venture; such foreign corporate body can invest. It has been regulated by regulation till now as 75 %. The ordinance prohibits anybody to conduct financial transaction except an established bank or financial institution and no bank or financial institution can use the proposed name for the purpose of carrying financial transaction without obtaining license from NRB. The bank or financial institution desiring to conduct financial transaction must submit an application for license to the NRB in the prescribed form including the prescribed fees, documents and description. NRB will grant license if it is satisfied with the basic physical infrastructure of the bank or financial institution. if the issuance of license for operating financial transaction

will promote healthy and competitive financial intermediary and protect the interest of the depositors, the applicant is competent to operate financial transaction in accordance with the provision of this ordinance and its regulation, directive, order or provisions of memorandum and Article of Association and there are sufficient grounds to believe that the entity is competent to operate financial transaction (www.banking.in.nepal.com.np).

The NRB will classify the institutions into A, B, C, D groups on the basis of the minimum paid up capital and provide the suitable license to increase its authorized, issued and paid up capital if it deems necessary. Similarly, the license holder entity must maintain a capital fund according to ratio prescribed by NRB based on the basis of its total asset or risk weighted assets, and other transactions. At the same time the license holder entity must maintain a risk fund according to ratio prescribed by NRB based on the basis of liability relating to its total asset and the other risk to be borne from off balance sheet transaction. The license holder entity must maintain general reserve fund regularly every year till the amount becomes double of the paid up capital of such entity. The bank of financial institution can be upgraded if the authorized capital is enough for upper class, the institution has been able to make profit for last five years and the nonperforming asset is within the prescribed limit. Similarly, the bank or financial institution can be degraded if it fails to meet prescribed capital within the time period, it has been making loss for last five years, it has violated the directives of Rastra Bank time and again and it fails to maintain Risk Management fund as prescribed by it. The NRB will make necessary investigation and avail opportunity to clarify before taking such decisions. The NRB is in full power to deny license for financial transaction if the conditions stipulated in ordinance are not met and it is also authorized to impose necessary conditions taking to account the existing financial position of the bank or financial institution, the interest of depositors and healthy operation of financial transaction. Similarly, it may increase, decrease or modify

the terms and conditions time to time. The NRB can suspend the license of the license holder for a specific period of time issued for the purpose of carrying financial activities or it may order the bank or financial institution to close the operation of their office partially or fully if such a license holder acts against the provisions of the Nepal Rastra Bank Act, 2002, or the regulation made there under or fails to act in accordance with the order or directives issued by it or fails to act for the welfare and in the interest of the depositors. The NRB may cancel the license issued under this ordinance to carry on the financial transaction of the license holder under the certain circumstances as stipulated in the ordinance.

A foreign bank or financial institution desiring to open its office with in the kingdom of Nepal must submit an application to NRB in the form as prescribed along with the fees and particulars as prescribed. The NRB may issue a license to foreign bank or financial institution to carry on financial transaction by allowing them to open a office with the kingdom of Nepal taking into account the situation of competition existing tin the banking sector, the contribution that could be rendered in the Nepalese banking sector and the reputation of such foreign bank or financial institution. The NRB may specify necessary terms and conditions in the course of granting transaction license and it shall be duty of the foreign bank or financial institution to comply with such terms and conditions (www.bankinginnepal.com.np).

2.2.5 Existing Rules and Regulations Relating to the Commercial Banks

a) Paid up Capital

1. A commercial bank of national level, the paid up capital of such bank must be at s 200 corers.
2. To have an office in Kathmandu, the bank is required to have either joint venture with foreign banks and financial institutions or a technical service agreement (TSA) at least for three years with such institutions.

3. The share capital of commercial banks will be available for the promoters up to 70% and 30 % to general public. The foreign banks and financial institutions could have maximum of 75 % share investment on the commercial banks of national level. In order to provide adequate opportunity for investment to Nepali promoters in National level banks, only 25 % of total share capital will be made available to general public on the condition that the foreign bank and financial institution are going to acquire 50 % of total share.
4. Banks to be established with foreign promoters' participation have also to be registered fulfilling all the legal processes prescribed by the prevalent Nepal laws.
5. Banks that are already in operation and those who have already obtained letter of intent before the enforcement of these provisions have to bring their capital level within seven years, i.e., by 16 July 2009 as per this recently declared provision. In order to increase in the capital such increase should be at a rate of 10 percent per annum at the minimum.
6. Among total committed share capital, the promoters has to deposit in NRB an amount equal to 20 % along with the application and another 30 % at the time of receiving the letter of intent on the interest free basis. The bank should put into operation within one year of receiving the letter of intent. The promoters have to pay fully the remaining balance of committed total share capital before the banks comes in to operation. Normally, with 4 months from the date of filling of the application, NRB should give it decision on the establishment of the bank whether it is in favor or against it. If it declines to issue license, it has to inform in writing with reasons to the concern body.

b) Promoters Qualifications & Sale of Share

1. Action on the promoter's application will not be initiated by the Nepal Rastra Bank if it is proved that their collateral has been put on auction by the bank

and financial institution as a result of non-payment of loans in the past, who have not cleared such loans or those in the black list of the Credit information Bureau and five years have not elapsed from the date of removal of their name from such list. The application will be deemed automatically cancelled irrespective of it being on any stage of process of license issuance if the above events are proved.

2. Out of the total promoters, one-third should be its chartered accountants or at least a graduate of Tribhuvan University or recognized institutions with major in economics or accountancy, finance, law, bank in or statistics. Likewise, at least 25 percent of promoters group should have the work experience of the bank or financial institution or similar professional experience.
3. An individual, who is already serving as a director in one of the bank and financial institutions licensed by Nepal Rastra Bank, Cannot be considered eligible to become the director in other banks or financial institutions.
4. Stockbrokers, market makers, or any individual or institution involved as an auditor of the bank and institution carrying on financial transactions cannot be a director.
5. Promoter group's share can be disposed or transferred only on the condition that the bank has been brought in operation; the share allotted to the general public has been floated in the market and after completion of three year from the date t has been registered in the stock exchange. Prior to the disposal of such shares, it is mandatory to get approval from the Nepal Rastra Bank.
6. The share allotted to the general public has to be issued and sold within three years from the ate the bank has come in to operation. Failing to fulfill such provisions, the bank cannot issue bonus share or declare and distribute dividends.
7. Shareholders of the promoters group and their family members can not have access to loans or facilities from the same institution. For this purpose, the

meaning of the family members will comprise of husband, wife, son daughter, adopted-son, adopted-daughter, father, mother, step mother and depended brother and sister. (www.bankinginnepal.com.np).

2.2.6 Activities of the Commercial Bank

As per the commercial bank act 2031 , a 'Bank' is a commercial bank established under this act 'banking transaction' are the activities of accepting deposits from the others for the purpose of lending or investing , repayable on demand or after some stipulated time period by means of generally accepted procedure. (Commercial Bank Act, 2031) The functions of receiving money from his customers and repaying it by honouring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business. The major activities of a commercial bank are essentially accepting deposits and making loans and advances. In the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. The major activities of a commercial bank have been divided in to two parts are as follows:

1. Collection of Resources
2. Deployment or mobilization of Resources

2.2.6.1 Collection of Resources

Sustainable economic growth requires intermediary channels for efficient allocation of resources. Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channelled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the activities of commercial

banks. Resources in commercial banks collected from two sources internal and external internal means owners fund and external means borrowed fund.

Internal Fund or Capital Fund

Internal fund of the bank is capital fund, which consists paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of Rs 200 corers in order to establish as a national level commercial bank. NRB has also prescribed the capital adequacy norms to be of at least 12 %. 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 each year until the amount becomes double the paid up capital. The external fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some part by the short-term fund borrowed from other banks called inter bank loan or central banks.

Deposits & Others Liabilities

Deposits are collected from their customers in various types of savings. Customer's deposit is a major source of bank's resources. It is very important for a bank for its liquidity supply that banks are often engaged in competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits. There are various types of deposits like, call deposit, savings deposit, fixed deposit, current deposit etc. All of above are on demand deposit where as fixed is time base deposit. As per commercial banking act of Nepal, a current account is the bank account having money, which is subject to repayable whenever demanded. Likewise fixed deposit is time based deposit which is withdrawn only after the expiry of the time period. Banks offer interest on these accounts varying the duration of deposit maturation. The saving deposits are accepted on saving accounts which are defined by commercial

banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (commercial bank Act 2031). Resources except customer's deposit and capital fund are called other liabilities of the bank. It consists of short term borrowed fund from other banks and central bank. This types of resources are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity position of the bank. This borrowings rate is directed by the Central bank of Nepal. In other resources also includes, payables in the account of the banks.

2.2.6.2 Deployment of Resources

The prime purpose of collection of resources is to use it in productive sector this function of commercial bank called deployment of resources. Deployment of resources of the bank means use for the bank's fund in such a way that it ensures liquidity as well as gives some income for meeting its operating expenses and optimum return to shareholder. The overall performance of the banker reflects by such activity. Every financial institution tries to maximize it's earning by using its excessive cash by lending it to the sensible borrowers in a manner which in no way impairs its capacity to pay on demand the acquired funds to their owners. Mobilization of resources in bank is a challenging job. Resources of banks are mobilized basically for two purposes one is for liquidity and another is for profitability. The importance of liquidity and profitability in a bank is dominant. Liquidity is defined as bank's capacity to pay cash in exchange of deposits. Liquidity needs of commercial banks are unique because in no other types of business there will be such a large proportions of deposits payable on demand. Bank maintains liquidity in the form of cash and Bank balance, money at call, investment in government security etc. In other hand banks always pays their attention to maximization their profitability. Depositors always expects better interest on their deposit, employees expects better salary, perks and bonus this is to because its shareholders expect a fair rate of return. If the bank can not satisfy

either of these parties, the success of the bank is always questioned. The profit is excess of incomes over expenses. To maximize profit, incomes should be reasonably excess over expenses. The major sources of income of a bank are interest income from loans and investments and fee based income.

A. Resources for Liquidity

Liquidity means portfolio of such assets which are convertible in to cash with in very short period of time. As major portion of a bank's resources comprise customer deposit which are subject to repayable on demand. So banks maintain sufficient amount of liquid assets in the form of cash in their vault balance at their account of Central Bank and inter bank.

B. Investment in Securities

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. Such investments can easily be liquidated if required thus they also called liquid assets.

C. Loan and Advances

Granting the loan and advance is a major function of bank. Overall profitability of bank depends on interest margin. Banking business essentially involves lending of loan and advances. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non repayment of loan is known as credit risk. Commercial banks generally lend for short term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in

selecting the borrowers. Generally banks lending is guided by their lending policies. General principles of a sound lending policy should be followed by a bank while taking decision towards the lending such as safety, liquidity, profitability, risk diversifications etc.

The types of loans may be collateral loan, demand loan, Hire purchase, educational loan, foreign employment loan, social loan, housing loan, import and export loan, loan against fixed deposit, against securities, OD loan etc. There are some approval process of bank loan .The entire amount is disbursed to the borrower account after completing the approval process which in repayable in terms and conditions of a banks i.e. periodicals instalments basis or limp sum on the expiry of loans. Overdrafts are granted in current account of a customer. It is the permission given to overdraw from the account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. NRB has made a mandatory provision on loan loss. NRB regulation on classification and provisioning is pass loan (Principal overdue up to 3 months) is 1 % , Substandard loan (principal overdue up to 6 months) 25 % , Doubtful (Principle overdue up to 1 year) 50 % , and Bad loan (Principle overdue above 1 year) is 100 % .Pass loan is called ' Performing' assets where as others are called ' Non performing' assets. Provision requirement in case of loan given against personal guarantee only is additional 20 % for pass substandard and doubtful loans. Provision for restructured, rescheduled and swapped loan is 12.5 % only. The amount of loan loss provision is treated as the expenses items. Therefore, in order to improve the profitability, the banker should be more attentive toward timely realization of dues so that the amount of loan loss provision may be maintained at the least possible level (Dahal & Dahal 2002:120). D. Other activities for mobilization of resources: Granting loan and advance is a major functions besides this bank involves other income generating activities such as bank guarantee , issuing letter of credit, cheque collection, remittance services,

bills payment services, traveler's cheques etc. In such cases banks do not have to involve their fund and yet they are charging some fee as commission for such services.

2.2.7 Impact of National and International Situation on Commercial Bank

Despite the current political instability in the country, the total flow of domestic credit has increased during the year. This is mainly because of substantial growth of credit flow to government and non-financial government corporations like NOC, RNAC, and National Trading etc. However, the prolonged conflict in the economy has started taking its toll on the private sector. The delay in peace process, the current security condition, and the significant imbalance in the political situation of the country have opened up few doors for new investment opportunities. On the one hand, private sector credit is steadily declining & on the other what little extension there is, is getting riskier. On the positive side, the living standard of Nepalese people has risen due to the direct impact of more and more Nepalese people working abroad. The Nepal Living Standard Survey (NLSS)-II Released by the Central Bureau of Statistics (CBS) states that in nominal terms, average household income has grown by more than 80 per cent. This is an important factor which the Banks have capitalized on, as is evident from the growing competition amongst the banks to extend consumer loans. Nepal has shown good initiation and commitment in following the rules and regulations laid down by the South Asian Free Trade Agreement (SAFTA), scheduled to become a reality from January 1 2006, and Bay of Bengal initiative for Multi- Sectarian Technical and Economic Cooperation (BIMSTEC). Nepal's recent entry to SAFTA and BBIMSTEC has setup a ladder for possible economic growth in the future. Similarly, Nepal's accession to the World Trade Organization (WTO) would permit international banks to operate in Nepal, which will require enhancement in our service quality in order to compete with them. In view of

these, it is imperative for the Bank to have its business plan and strategy accordingly.

2.3 Profit Planning as a Concept

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools. "A profit planning & control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise understanding of responsibilities and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management" (Welsch, et al, 2001: 215).

"Profit planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245).

"Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance "(Gupta, 1992:3).

"Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future" (Fremgen, 1973:12).

"Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management (Welch et al., 2001:45).

Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures (International Management Institution Geneva Conference 1980). The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follows:

- To provide definite goals and objectives that serve as benchmarks for evaluation performance of business.
- To provide information to management timely.
- To point out efficiency and inefficiency.
- To reduce cost and make profit more.
- It provides a valuable means of controlling income and expenditure of a business, as it is a 'plan for spending'.
- It reflects weakness in the organization very promptly.
- To fix responsibility center for manager.
- It provides a tool through which managerial policies and goals are periodically evaluated tested and established as guidelines for the entire organization.

"Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss" (Ninemeir and Schmidgall, 1984:125).

Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a day's profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favourable profit in the enterprises.

2.4 Mechanism of Profit Planning

2.4.1 Profit as a Concept

Profit is excess income over expenditure. Profit is a basic element of profit planning and control. There is no meaning of profit planning and control without profit. Every profit oriented business concerns involves to profit generating activities.

"Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount

spent. Likewise, advantage or benefits gained from something is called profit" (Hornby & Cowie, 1992:63).

The successes and failure of business entity measures by profit earned by them in certain period of time. The major concern of stock holder is profit so organization always wants to maximization of profit. Performance of management of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

2.4.2 Long Term and Short Term Profit Planning

Strategic profit plan and tactical sales plan is known as long term short term profit planning. Strategic sales plan is prepared for 5 to 10 years. It is wide and universal in nature and developed by year and amount. "The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one year time horizon the upcoming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation "(Welch et al., 2006:173).

While preparing the strategic profit plan state of economy, political stability, population study etc are keep in considerations. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

2.4.3 Concept of Planning and Control

Planning is the basic element of profit planning and control. Planning is going according to plan the primary purpose of planning are to reduce uncertainty about future profit, to incorporate management judgment and decisions in to the planning process, to provide necessary information for developing other elements

of comprehensive profit plan and to facilitate management control of sales activities." Operational planning is often referred to as short term budgeting and looks at resources, production etc for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years, for example of five year plan would be a long term plan it presents the organization with an idea of the broad direction that it hopes to be heading in. The Strategic plan will incorporate the operational plans of the organization. The operational plan translating the strategic plan into achievable short term goals" (Lynch & Williamson, 2003:158).

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished" (Welsch et al., 2001:45).

Arrangement for doing or using something considered or worked out in advance is planning." Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991:325).

Planning is a quantified assessment of future condition about a particular subject based on one or more explicit assumption. The management of organization make plan and it may accept, modify or reject. Planning is the intellectual mental process. It is goal oriented primary function of management. It is goal oriented primary function of management. "The major component of profit planning and control is controlling. The dictionary meaning of control is having a power to regulate something standard of comparison for checking the results of the experiment" (Hornby 1992:84).

"Control is the process that measures current performance and guides it towards some pre determined goals control is the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards the objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performance, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of managerial function.

2.5 Budgetary Control

2.5.1 Concept of Budgeting and Budget

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 direction 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.

2.5.2 Budgeting in Profit Plan

Budgeting is a tool for management control it is forward planning. It is quite pivot of any successful design of control." Budgeting is the principal tool of planning and control offered to management by accounting function" (Welsch, 1999).

The primary purpose of budgeting is to help out in organized planning and in controlling the operations of business concerns. Actually budgeting is greatest sources of message and an important means in the hands of management. Since, budgeting deals with essential policies and objectives, it is prepared by top management. A formal budget by itself will not make sure that a firm's operations will be automatically run to the accomplishment of the goals set in the budget. For this to happen, the top level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to achieve them.

2.5.3 Prerequisites of Budgeting

A successful budgeting structure should follow some crucial features to ensure best results. Some of the features are discussed below.

a. Effective Future Forecasting:

One of the major components of budgeting is forecasting. The future forecast is made by the past events and future assumptions. Forecast is groundwork of budget these forecasts are argued by the administrative and when most profitable combinations of forecast are selected they becomes budgets. The sound budgeting system gives the better result.

b. A Sound Accounting System

Budgeting requires adequate and accurate information of past records. This can be ensured only by having a sound accounting system.

c. Effective Business Policy

Budgeting depends of the top level business policy. Policy should be made for the success of business. Every budget reflects the business policies formulated by the

management level. Policies should clearly pre defined and budget is prepared by taking it on consideration.

d. Support of Budget Working Group

In the process of budget preparation the support of budget working group is essential. Thus in order to make a budget system more and more effective, a budget committee should be set up.

e. Availability of Information

Without right information in right time budgeting system will not be complete. Information from department and other areas should be timely available in the budget preparation process.

2.6 Basic Concept of Profit Planning

The concept of budgeting was originally established with function of an 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 basic technique of decision making and is given the name ' profit planning and control program'. The basic concepts of PPC include the various activities that should be followed to attain maximum usefulness form profit planning and control. These activities are mentioned below.

a. Managerial Involvement and Commitment

Managerial involvement entails managerial support, confidence, and participation and performance orientation. Top level of management should understand the nature and characteristics of PPC, Be convinced that particular approach to manage is preferable for their situation support the program in all its planning process as performance commitments.

b. Responsibility Accounting

A sound profit planning and control system must consist of responsibility accounting. Within the primary accounting structure secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise.

c. Organizational Adaptation

A successful PPC program must rest on sound organizational structure, for the enterprises and clear cut designation of lines of authorities and responsibilities of all the department of enterprises. The purpose of organizational structure and the assignment of authority are to establish a framework within which enterprise objectives may be attained in a coordinate and effective way on a continuing basis. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility control responsibility is further classified by cost center, profit center, investment center.

d. Full Communication

Communication is transferring information from one to another. Communication can be defined as interchange of thought or information to bring about a mutual understanding between two or more parties. For profit planning and control, effective communication means development of well defined objective, specification of goals, development of profit plan and reporting and follows up activities related to performance evaluation for each responsibility center.

e. Flexible Application

"This stress that a PPC program must not dominate the business and the flexibility in applying the plan must be forthright management policy. So that strait Jackets are not imposed and all favourable opportunities are seized even though they are

not covered by the budget rigidity in practicability will be the harmful boundary in an association in an occasion of r the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of the organization (Goet et al., 2063: 1.5).

f. Realistic Expectation

Profit Planning and Control must be based on realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservation so for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

g. Timeless

Time is going on it can't be stop whether an individual or organization busy or idle. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types one is timing planning horizons and another is timing of planning activities.

h. Individual and Group Recognition

Behavioural aspects of human being are for the field of the study of the psychologist, educators and businessman, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization the fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioural problems.

i. Zero-Based Budgeting

The budgeting which is always starting from Zero is called zero base budgeting. "Begin with where you are and establish a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint a total justification" (Welsch et al., 2006:43).

j. Follow Up

The important of follow up action on profit planning and control approach is more. A careful study is needed to correct the action of substandard performance in a constructive manner, to recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program.

2.7 Merits and Demerits of Profit Planning and Control

Profit planning and control has both merits and demerits even though merits are dominant one. Merits of profit planning and control listed below.

- Profit planning and control brings organizational policy in to action.
- Organizational structure will be sound and effective by the means of PPC.
- Historical statistical and accounting data is used by PPC.
- It compels management to plan for the most economical use of labor material a capital.
- Efficiency and inefficiency can be measured by PPC.
- Management attention can be drawn by PPC for the general business condition.
- It reduced cost by increasing the span of control because fewer supervisors are needed.
- PPC creates understanding between management and their co-workers.

- PPC reduce the uncertainty and gives guidelines to achieve organizational goal.
- It provides to all level of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

Profit planning and control model can't be assumed that it is free from problem.

Some of its demerits listed below.

- Preparing profit plan is a difficult task.
- Some of traditional types manager don't like to prepare profit plan.
- It is not realistic to whiteout and distributes goals, policies and guidelines to all the supervisors.
- It takes away management flexibility.
- It creates all kinds of behavioral problems
- It adds a level of complexity that is not needed.
- The manager's supervisors and other employees do not like the budget.

2.8 Profit Planning and Control Process

Profit planning and control has its own process from preparing plans to implementation and feedback. " A PPC Program includes more than the traditional idea of a periodic or master budget Rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps " (Welsch et al., 2006:71).

The process of PPC is listed below:

- a. Identification and Evaluation of External Variables: Organization is always affected by two variables i.e. internal and external. Management always is curious about the variables which are directly and indirectly impact to the

enterprises. Variables, which have a direct and significant impact on the enterprises, are called relevant variables. Variables may have their different relevancy according to the market nature.

- b. Design of Goals and Objectives of the Enterprises: A major responsibility of management is to design the objectives & goals of the enterprise. Executive management can specify or re-state this phase of the PPC process based on realistic evaluation of the relevant variables. The management defines the purpose of the enterprise; clarify the character, environmental analysis, others decisions are taken in favor of the company.
- c. Strategy formulation and Implementation: Strategy should be set out for the betterment of the enterprises. Timely implementation and evaluation is major consideration of such strategy to achieve planned goals and objectives.
- d. Management Planning Instructions: Management planning instruction is communication between top management to lower level of management and it should adopt the basic of full communication. Top management establishes a planning foundation.. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions.
- e. Project Plan Preparation & Evaluation: Project plans are different from periodical plan. It is a long term strategy. It is prepared and evaluated in the profit planning & control process. Consistent with this approach during the formal planning cycle, management must evaluate and decide up on the plan states of each project in process and select any new projects to be initiated during time dimension covered by the upcoming strategies and tactical profit plans.
- f. Development of Long term and Short term Profit Plan: In the profit planning and control process developing long term and short term profit plan is a

major task of management executive. Certain information are collected from related sources, to develop profit plan general format is available to management Two profit plans completed , management should subject the entire planning payable to a careful analysis and evaluation to determine whether overall plans are the most realistic set that can be develop under the circumstances. When this point reaches the two profit plans should be formally approved by the top executive and distributed to the related managers.

- g. Implementation of Profit Plan: Formulation is one of the major tasks of manager whereas implementation is more and more important factor of profit planning & control. The profit plan should be implemented by every concern designation. Implementation of plans and strategy is a function of management. Effective management at all levels requires that enterprise objectives goals, strategies, and policy to be communicated and understood by subordinates.

2.9 Limitation of Profit Plan

Profit planning and control is an important tool for management. "Every planning is not out from limitation also profit plan is not free from limitation. So it is essential that the user of profit planning and control must be having a full knowledge of its limitations. In developing and using a profit planning and control program the following limitations kept in consideration (Goet et al., 2063:1.6).

- The profit plans based on estimates
- Execution is not automatic
- Danger of inflexibility
- Costly
- Lower moral and productivity

"The profit plan should regard not as a master but as servant. It is one of the best tools yet devised for advancing the affairs of a company and the individuals the affairs of a company and the individuals in their various spheres of managerial activity. It is not assumed that any profit plan is perfect. The most important consideration is to make sure, by intelligent use of profit plans that all possible attainable benefits are derived from the plans as rendered and to re-plan when there are compelling business reasons" (Welsch, 1998:265).

2.10 Profit Planning in Commercial Banks

Profit planning in manufacturing sector is common it has been started in organization like banking sector too. Development of profit plan in banking sector begins with the preparation of various functional budgets. A bank prepares budget for deposit collection, lending expenditure, income, investment , non fund base business etc. these budget are taken as functional budgets despite this budget now a day's bank also prepare for future plan this is called profit plan.

2.10.1 Planning for Resources

Planning for resources is functional plan for banking sector. This is also a starting function all the planning depends on resource planning. The major resources of bank share capital and deposit .The lending and investment plan depends on the resources plan. Deposit is a primary source of resources collection. There are various types of deposit in the bank some are interest free and some are with interest. A proper mix of cost free and costly deposits corresponding to short term and long term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the sometime having comfortable mix of income yielding assets. Besides the deposits other resources are borrowing by inter bank loan. Certain rate of interest is directed by the NRB for inter bank loan the bank can fulfill short term requirement by taking inter bank loan too. Another resource is reserves and provision of banks. Collection of resources is one of the

major functions of bank whereas deployment of such resource is also as important as this. The assets portfolio is determined by the planning for deployment. Bank can utilize their fund basically in three types of investment sector like liquid assets, lower income generating assets higher income generating assets. Liquid assets means banks should maintain certain percentage of total deposit for their short term fund requirement i.e. called liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e. lower income generating assets and last in higher income generating assets is interest generating sector like loan and advance. Most of the portion of deployment is in the loan and advance of a bank. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets.

2.10.2 Non-Fund Consuming Income Plan

Income without investing of banks fund is called non funded income. They are LC, Bank guarantee payment of bills etc. A source of income which is generating without any investment is called non funded business activities.

2.10.3 Planning for Expenditure

Income can't imagine without expenditure so expenditure should be planned in proper way. The expenses planning and controlling are very essential for supporting the objectives and planned programs of the business concerns. The income after deducting all of expenditure is called profit so in the process of profit planning the expenditure planning plays the vital role. A bank always tries to control their expenses by preparing periodical budget. Expenditure minimization means that the profit maximization so the expenses must be planned carefully for developing a profit plan. In a bank there are generally following expenses.

- Administrative expenses.
- Interest expenses.

- Operating expenses.
- Loan loss provisions
- Bad debts
- Non-operative expenses.
- Expenses by the exchange fluctuation etc

Interest expenses in direct expenses for the financial institution. It is paid in to customer interest bearing deposit as per the bank's rules or agreed rate between bank and customer. Payment of interest is capitalized in same account of customer after deducting government tax prevailing rate of tax is 5 % for persons and 15% for corporate. The expenditure side of bank's income statement is covered by interest by the large amount than other expenses so interest expenses are major and direct expenses. In the total income after deducting the interest expenses rest amount called contribution margin. Other expenses are administrative expenses those are generally incurred by the bank during the course of its day to day operation. Other expenses depend of the volume of the transaction. Higher the volume of transacting higher will be operating expenses.

2.10.4 Planning for Revenue

The major expenditure of banks is interest and also major head of income is also interest. The main income source of bank or financial institution is interest margin. A bank lends their fund by taking some margin. The sources of income for bank is not only the interest other non funded sources are also can generate income whereas interest is dominant one. The major sources of revenue for a bank are listed below:

- Interest income
- Dividend
- Commission and Discount

- Miscellaneous income
- Foreign exchange income
- Remittance income
- Other non funded incomes

Income of a bank is basically activity based it depends of the volume of business. Higher the income generating activities of bank, higher will be the amount of its revenues. Therefore the bank develops its plans for various activities in such a way that it maximizes its income.

2.11 Application of Profit Plan 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. Now a day's banking sector are also curious about preparing profit plan budget. Functional budget only gives their operational plan where as PPC gives idea about profit maximization.

2.12 Execution of Profit Planning and Control

The only preparing profit is useless while it doesn't come in execution. The plan should be developed with the confidence that the enterprises are going to meet or exceed all major objectives. The final examination of whether the hard work and cost in developing a profit plan are worthwhile is its helpfulness to top management. "The development of an annual profit plan ends with the planned

income statement, the balance sheet and planned statement of changes in financial position. These three statements summarize and integrate the details of plans developed by the management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of budget potential. Timely completion of the planning budget suggests the need for a budget calendar" (Welsch et al., 1999:265).

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and selection considerable coordinate and controlling belongings. After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

2.13 Review of Previous Studies

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. The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could found some studies that have been made in this topic. Here are reviewed thesis some are manufacturing sector and some are related with financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

Thapa (2004) has conducted a research work on the topic of “*A study on profit Planning and control of Nepal SBI Bank limited*” his objectives and major finding are as follows:

Objectives:

- To identify the profit planning process and adopted by Nepal SBI bank limited.
- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the profit planning process.
- Findings:
 - Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
 - The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted year.
 - Nepal SBI has not made any in depth analysis of its strength and weakness.
 - Its mission and objectives have not clearly defined and delegated to the lower levels.

- The bank has not been able to maintain a minimum level of co-ordination between the departments and staff.
- The profit budget is extremely ambiguous. It is not based on scientific method or past trend analysis but based on a specific target put forward by the governing board.
- The bank is facing competition from increasing number of financial institutions in these years.
- These had led to substantial decrease in interest rates in the market thus attributing to lower yield.
- Budgets are prepared just to fulfill the formalities but these are not used effectively from the profit planning process.

Rimal (2008) has conducted a research on “*Profit Planning and Control of Nepal Bangladesh Bank*” her objectives and major findings are as follows:

Objectives:

- 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 Bank.

Some Major Findings:

- The average cost of deposit of the Bank is high.
- Banks CD ratio are high, which is rather a compulsion for the Bank to meet the cost of high cost deposit.
- LDO of the Bank has increased significantly but the part of proper loan assessment and monitoring aspects are not well developed.
- Bank should implement its activities with prior planning; there must be budgeting system, which enables it to achieve its objectives.
- Nonperforming assets could wreck Bank's profitability but while lending to the borrowers proper analysis of the loan proposal must be done which will decrease the chances of bad loan to the bank.

Kharel (2008) has conducted a research on "*Profit Planning of Commercial Banks in Nepal: A comparative study of Everest Bank Limited, Nabil Bank limited, and Bank of Kathmandu Limited*" his objectives and major findings are as follows:

Objectives:

- To find out the relationship between total investment, loan and advances, deposit, net profit and outside assets.
- To identify the investment priority sectors of Commercial Banks.
- 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 banks

Some of major Findings:

- The liquidity position of EBL is comparatively better than that of Nabil and Bok.

- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and Bok.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- BOK has higher investment on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.
- The return on loan and advances ratio and return on assets of EBL is lowest of all.
- The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.
- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.

- The trend of the total investment, total deposit loan and advances and net profit of EBL shows better position than that of Nabil and BOK.

Tiwari (2009) has conducted a research entitled “*Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited*” For this purpose of the study he used the data. The major concern of Tiwari is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

Objectives:

- To highlight the current profit planning premises adopted and its effectiveness in SCBNL 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:

- Bank management policy is very strong.
- It keeps minimum number of employees and highly qualified for maintain the job.
- The bank always adopt new technology
- The Bank is provides ATM and 365 days of services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.
- *Loan*, Allowance and Bill purchasing hold the highest outlet of resources deployment

- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend

Khatiwada (2010) is conducted a research entitled “*Profit Planning in Commercial Banks: A Case Study of Himalayan Bank Limited*” For this purpose of the study he used the data. The major concern of Mr. Khatiwada is to study the profit planning in commercial bank by taking a case study of Himalayan Bank Ltd.

His objectives and some of major findings are as follows:

- 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.

Major Findings

- Profit Planning and control system of HBL is very effective
- Budgeted is always lower than Actual Performance since it means Forecasting system of HBL is not good.
- The relationship between budgeted and actual figures is positively correlated
- The major income source is interest margin the trend of interest margin

- The return on assets and return on capital is satisfactory of HBL it shows the good earning capacity of the bank

2.14 Research Gap

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. 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. The researcher could find some study so far that has been related to profit planning system of commercial bank in Rastria Banijya Bank, Nepal Investment Bank, Standard Chartered Bank, Nepal Bangladesh Bank. This study may be a new study in this field as no study has been made profit planning of NSBI. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary items of income generation in financial institution. 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

3.1 Introduction

The main purpose of this chapter is to discuss the research methodology such as research design, population and sample. Data collection technique and analytical tools of the research study. It is widely accepted that research is simply the process of arriving at dependable solution to problem through the planned and systematic collection, analysis and interpretation of data. It is important tools for advancement of knowledge and accomplishment of purpose, thus research methodology is a way to systematically solve the research problem. It may be understood a science of studying that how research is done scientifically.

Research methodology, as a vital part of research study, describes the various sequential steps to be adopted by researcher in studying research problem along with the logical behind them. This study has intense relation with application of planning and control in a commercial bank with a specific reference to Nepal SBI Bank regarding the objectives to analyze, examine and interpret the application of profit planning in the Bank. The Research methodology includes, research design, data collection procedures, and research variable and tools use. For our purpose the following steps provides useful procedural guidelines so far as research methodology is concerned.

3.2 Research Design

This study is a case study in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. Recommendation is another important aspect of design strategy. The research design allows the researchers to take an appropriate measure and direction towards

the predetermined goals and objectives. A research design is the arrangement of conditions for the collection and analysis of data in a manner to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation imagines obtaining answers to research questions and controlling various things. This study is an examination and evaluation of budget process in profit planning program of Nepal SBI 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. This is a case study research.

3.3 Population and Sample

This research aims to studying the profit planning aspect of commercial bank taking the case study of a single bank Nepal SBI Bank, and data have been analyzed for five years so the five years data have been taken as base for this case study.

3.4 Sources and Collection of Data

Here both primary and secondary data has been used for this study. The primary data can be taken from informal discussion with executives. But this study is mainly based on secondary data. The main sources of secondary data are quarterly and annual financial reports, official records, web site, brochures, prospectus and other relevant publications of NSBI, NRB, Central Bureau of Statistic and relevant publications. From these sources the relevant historical data are gathered for analysis purpose.

3.5 Study Variables

Share capital, Customer deposit, loan and advances, Overdrafts, total resources and deployment, LC, Bank Guarantees, Interest Expenses, Other Expenses,

Interest Income, and Other Income of Nepal SBI Bank are research variables of this study.

3.6 Analytical Tools

We have analyzed the data by using various statistical, Mathematical and financial tools in this study.

3.6.1 Statistical and Mathematical Tools

We have analyzed the data by using following statistical and mathematical tools.

- Percentile Increment
- Mean
- Standard Deviation
- Correlation of coefficient
- Coefficient of variation
- Probable Error
- Regression analysis
- Test of Goodness of fit of the Regression Estimate
- Coefficient of Determination

3.6.1.1 Percentile Increment

This statistical tool gives the percentage change of previous year to current year. This tool helps to find out the increment in the study variable. Simply, the word percentage means per hundred. In other word, the fraction with 100 as its denominator is known as percentage and numerator of this fraction is known as rate of percent.

3.6.1.2 Arithmetic Mean Average

The central values that represent the characteristics of the whole distribution or the values around which all items of the distribution tend to concentrate are called

average. Arithmetic mean or arithmetic average is one of the important statistical measures of average. The arithmetic mean of a given set of observation is their sum divided by the number of observation.

3.6.1.3 Correlation of Coefficient

Correlation analysis is a statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of two or more variables. Karl Pearson's Coefficient of correlation is widely used in practice. The Pearson's coefficient of correlation is widely used in practice. The Person's Coefficient of correlation is denoted by the symbol "r".

The formula for computing Person's "r" is:

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}}$$

Where,

r= the correlation coefficient

x= $X - \bar{X}$

y= $Y - \bar{Y}$

X= Independent variable

Y= Dependent variable

Following general rules are applied to interpret the coefficient of correlation:

When $r = +1$, it means there is a perfect positive relationship between the variables.

When $r = -1$, it means there is a perfect negative relationship between the variables. When $r = 0$, it means that there is no relationship between the variables i.e. the variables are uncorrelated.

3.6.1.4 Regression Analysis

Regression is the statistical tool which is used to determine the statistical relationship between two or more variables and to make estimation of one variable on the basis of other variables in other words regression is that statistical tool with the help of which the unknown value of one variable can be estimated on the basis of known value of the other variable.

3.6.1.5 Standard Deviation (σ)

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

3.6.2 Financial Tools

Ratio Analysis and CVP analysis has been used in this study as financial analytical tools. Ratio analysis is main focus as financial tools throughout the study as "Ratio analysis is such powerful tool of financial analysis that through the help of it economic and financial position of business unit can fully x-rayed" (Kothari, 1971: 187).

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated objective of the study researcher has tabulated the available data in different figure, table and analyzed using the tools where necessary and applicable stated in the research methodology.

4.1 Mission Statement of NSBI

“My Nepal SBI Bank: My Customer First, My Nepal SBI Bank: First in Customer Satisfaction” To be the leading Nepali Bank, delivering world class service through the blending of state-of-the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. NSBI is committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance (www.nepalsbi.com.np).

4.2 Resource Mobilization Planning

The resource means required fund for the bank operation. it includes capital fund, loan and borrowing, deposit collection and other liabilities. Among these, some resources are cost bearing and some are cost free sources. Here the researcher going to present status of available resources of NSBI in tabular and figure form.

Table 4.1
Status of Available Resources of NSBI

(Rs. in. 'Lakh')

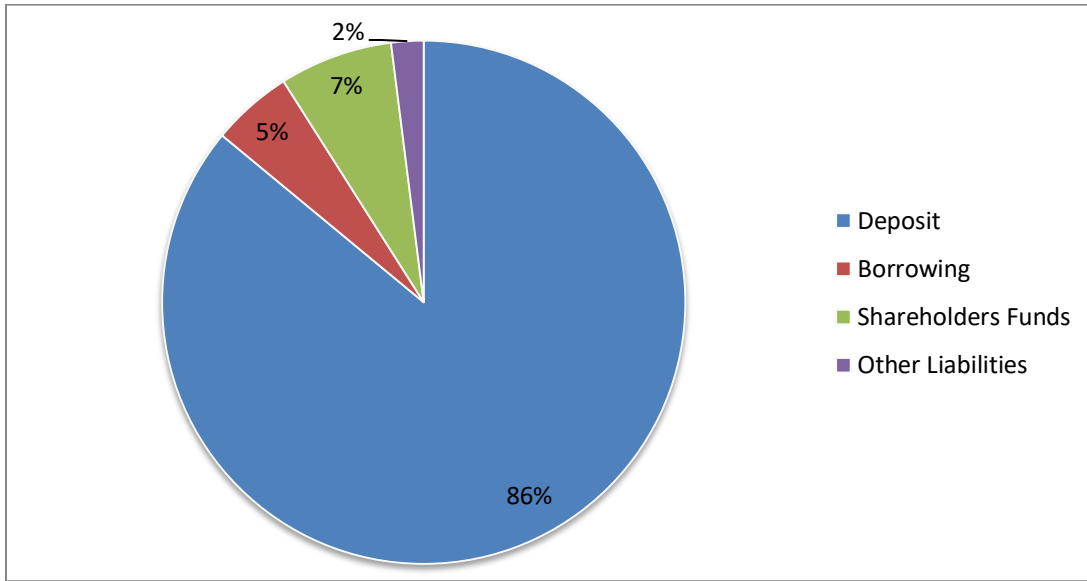
F/Y	Deposit		Borrowing		Shareholder Fund Fund		Other Liabilities Liabilities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
2059/60	65228.17	86.21	658.26	0.87	5698.52	7.53	4078.32	5.39	75663.27
2060/61	71983.27	85.28	1171.78	1.39	6266.37	7.42	4982.64	5.90	84404.06
2061/62	86547.74	83.91	4696.29	4.55	6890.13	6.68	5008.34	4.86	103142.50
2062/63	110020.41	84.70	8124.29	6.25	9823.74	7.56	1927.57	1.48	129896.01
2063/64	114452.86	82.62	10153.65	7.33	11632.91	8.40	2284.03	1.65	138523.45
2064/65	137153.95	80.15	18274.80	10.68	14146.45	8.27	1548.11	0.90	171123.31
2065/66	279572.21	90.61	9274.66	3.01	17126.07	5.55	2564.40	0.83	308537.34
Total of Resources	864958.61		52353.73		71584.19		22393.41		1011289.94

Source: Annual Reports of NSBI

The above table shows the status of total resources of NSBI. The resources are collected from customer deposit, shareholder fund, other liabilities and borrowing. The major source of resource collection is customer deposit since it has higher figure in the above table. For the more analysis purpose the resources plotting in the figure below.

Figure 4.1

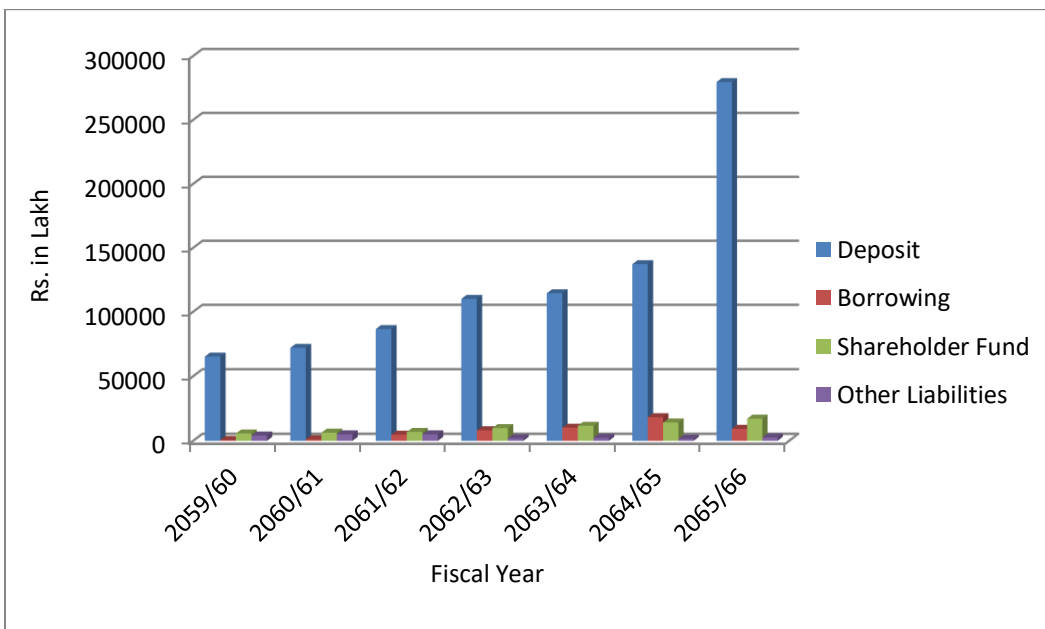
Pie Chart Showing Status of Available Resources of NSBI



The above table and figure shows the sources of available resources used by the bank. Figure is shown in the pie-chart by year wise and resource wise.

Figure 4.2

Bar diagram Showing Status of Available Resources of NSBI



The above table, pie chart, bar diagram show deposit collection is the major source of resource collection so we have divided total resources in two parts one is deposit collection and another is other resources(other than deposit)

- customer Deposit collection
- other Resources

4.3 Customer Deposit Collection

As deposit collection is major activities of commercial bank, it is important source of resource mobilization. As per the data F/Y 2059/060 to 2065/066 the customer deposit is high as 86%. These deposits are collected from different sectors that are individual and corporate customer. Deposits are collected as per the bank's rules. Some deposits are interest bearing and some are interest free. The Bank has categorized the deposit into two types which is as follows:

1. Interest Bearing Account

- a. Saving Account
- b. Call Deposit Account
- c. Fixed Deposit Account

2. Interest Free Account

- a. Current Deposit Account
- b. Margin Deposit Account
- c. Other Deposit Account

4.3.1 Deposit Collection Budget of NSBI

NSBI prepares the plan for the deposit collection. The budgeted and actual deposit collection of NSBI has presented in table below:

Table 4.2

Status of Budgeted and Actual Deposit Collection

Fiscal Year	Budgeted Figure	Actual Figure	Achievement
2059/60	66080	65228	98.71%
2060/61	73562	71983	97.85%
2061/62	90856	86548	95.26%
2062/63	112889	110020	97.45%
2063/64	118089	114453	96.92%
2064/65	140173	137154	97.84%
2065/66	280520	279572	99.66%

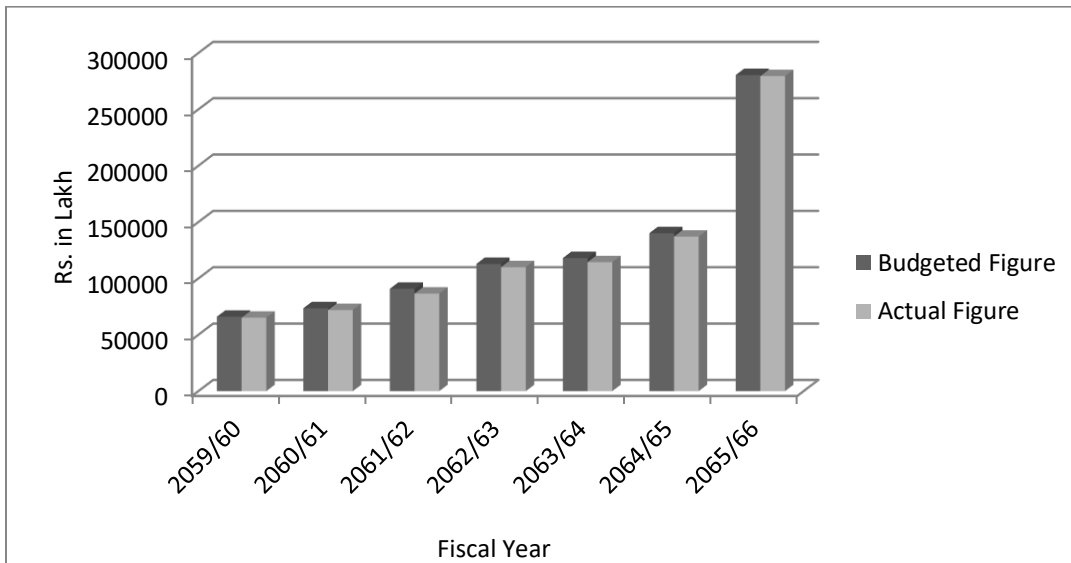
Sources: Annual Reports and Budgeted Statement of NSBI

The above table shows the status of budgeted and actual deposit collection of NSBI. The bank has achieved its objectives of deposit collection every year almost 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating.

It ranges between 95.26% to 99.66%, through the seven year of study period. The data of table are presenting in bar diagram for the analysis purpose

Figure 4.3

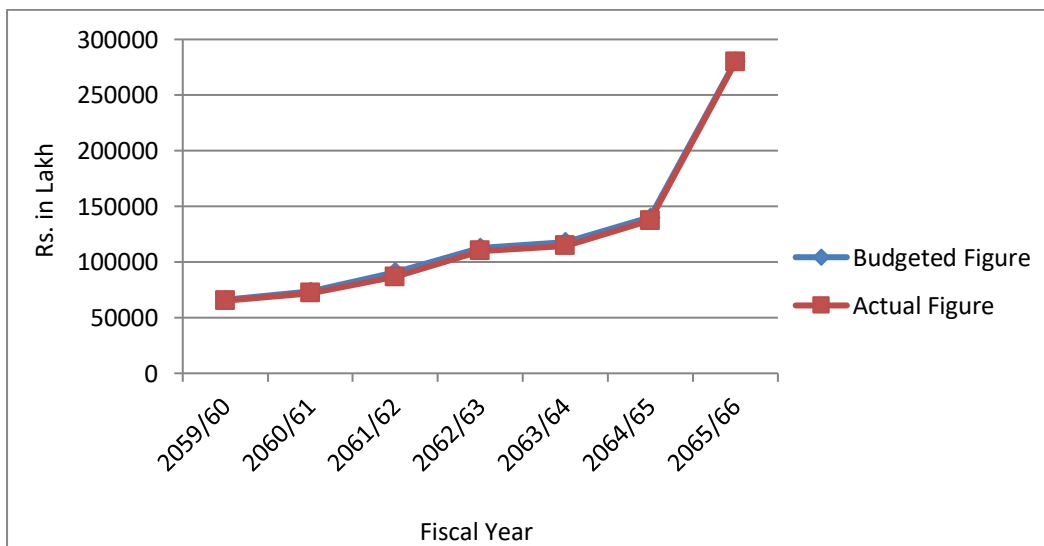
Bar Diagram Showing Budgeted and Actual Deposit Collection



The above bar diagram shows the budgeted and actual figure of deposit collection of NSBI. The actual deposit is nearest to the budgeted figure so that the targeted collection of deposit has almost met every year by NSBI. The position of budgeted and deposit collection showing in the trend line. We can see diagram in increasing trend but in year 2065/66 increasing trend is high.

Figure 4.4

Trend Line showing Budgeted and Actual Figure



Above table and figures shows the deposit collection is almost meet the target budgeted amount. This gives the high level of achievement made by bank toward deposit collection sector. In the above bar diagram, budgeted deposit is quite higher than actual Deposit. Scatter diagram shows budgeted collection is higher than actual amounts. NSBI is well performing in the deposit collection sector. The researcher finds the relationship and statistical results between budgeted and actual deposit collection by using some statistical tools like arithmetic mean, standard deviation, coefficient of variation, Correlation and regression and probable error.

Table 4.3
Summary of Deposit Collection Budget and Actual Deposit

(Rs. in ‘Lakh’)

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	126043	123543
Standard Deviation	67477	67863
Coefficient of Variation	53.53%	54.93%
Correlation of Coefficient (r)	0.9998	
Probable Error (PE)	0.0001 (r>6PE)	

Sources: Appendix - 1

The above table shows that actual deposit is more variable than budgeted deposit since the CV of actual deposit is higher than budgeted deposit. Budgeted deposit is more consistent and homogeneous actual deposit is quite more variable in nature. A greater CV represents less homogenous. By using another statistical tool correlation co-efficient to analyze the relationship between budgeted deposit and actual deposits. It is used Karl person’s coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by Y is assumed to be dependent variables. So that increased in budget is support to

increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix 1. The researcher have found (r) is 0.9998 and PE is 0.0005 the figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is $r > 6PE$ so it is significant so the actual deposit going on same direction. Another statistical tools regression line can also be fitted to show the degree of relationship between budgeted deposits and actual deposit and to forecast the achievement with given target so that the regression line of 'Y' on 'X' is as follows:

$$Y - \bar{Y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

$$Y - 123543 = 0.9998 \times \frac{67863}{67477} (X - 123543)$$

$$Y - 126043 = 1.006 (X - 123543)$$

$$Y = 1.006X - 3256.26$$

From the above equation it is clear that actual deposit is in increasing trend. By the help of this equation we determine the expected deposits achievement with given value of budgeted deposit ($X=320000$) ascertain the expected deposits achievement for F/Y 2066/2067.

When $X=320000$

The expected deposit for the year 2066/67

$$y = 1.006 \times 320000 - 3265.26$$

$$= 318663.74(00000)$$

The relationship between budgeted and actual amount deposit remains same the amount of deposit in F/Y 2066/2067 will be rs.32016126000 stated by above regression line.

4.4 Resources Deployment Plan of NSBI

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to three purposes these are listed below.

- To maintain the liquidity position
- To invest in income generating activity
- To purchase fixed and other assets

a) Deployment to Maintain Liquidity Position

Liquidity need to be maintained for the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expenses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal or no return at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position should be maintained as required higher the liquidity can't give effective return and lower the liquidity became failure to repay the deposit.

b) Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests them in different sector as loan Deployment of fund in income generating activities can divided in to two categories.

- Loan, Discount, Overdrafts (LDO)
- Other Investment

LDO refers loan, Advances, O\D, Bills Purchase & Discount & other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

Table 4.4
Total Income Generating Deployment of NSBI

(Rs. in 'Lakh')

F/Y	Investment.		Loan and Advance		Total
	Amount	%	Amount	%	
2059/60	12072.75	21.27	44687.20	78.73	56759.95
2060/61	19075.21	27.05	51436.62	72.95	70511.83
2061/62	26076.80	29.56	62138.79	70.44	88215.59
2062/63	36107.75	32.13	76267.36	67.87	112375.11
2063/64	26594.53	21.94	94604.51	78.06	121199.04
2064/65	30888.87	20.32	121136.98	79.68	152025.85
2065/66	132861.82	46.75	151317.48	53.25	284179.30

Source: Annual Report 2059/2060 to 2065/2066

The above table shows the status of income generating deployment of NSBI. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 53.25 % to 79.68 % where as the range of investment is 20.32 % to 46.75 %.

c) Deployment in Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give returns directly but without these others activities can't be run smoothly. Fixed Assets subject to write off at certain period of time as expenses.

4.4.1 Budgeted and Actual LDO of NSBI

Since the LDO is a major sector of deployment of the bank the researcher going to analyze about the position of LDO of NSBI. Following table shows the budgeted amount of LDO and the same achieved actually.

Table 4.5
Budgeted and Actual Loan, Discounted, Overdraft of NSBI

(Rs. in 'Thousand')

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2059/60	4614220	4468720	96.84%
2060/61	5203050	5143662	98.86%
2061/62	6513520	6213879	95.40%
2062/63	8452590	7626736	90.23%
2063/64	10583210	9460451	89.31%
2064/65	14913420	12113698	81.23%
2065/66	17528230	15131748	86.33%

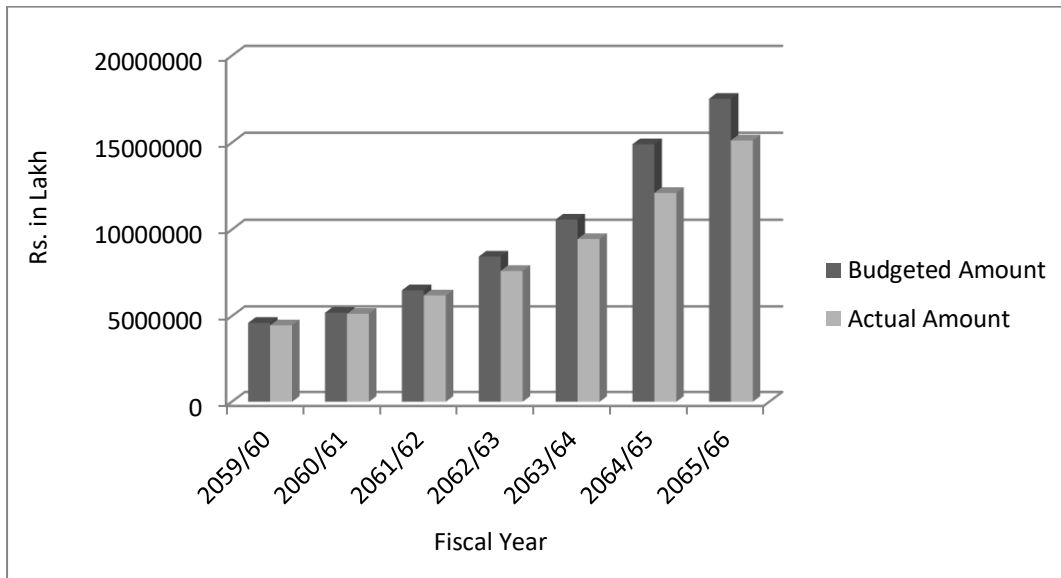
Source: Annual Reports and Budget Statement of NSBI

Above table shows that status of budgeted and actual LDO of NSBI. The actual achievement of LDO is able to achieve almost 100% of targeted LDO. This indicates that the bank is successful enough to meet the targeted achievement.

The range of achievement over the Seven year period is 81.23% to 98.86% it shows that NSBI has meet the targeted investment in LDO in every year but the achievement trend is not same increment trend. For the study purpose the figure of LDO are presented in Bar and scatter diagram and draw some conclusion accordingly.

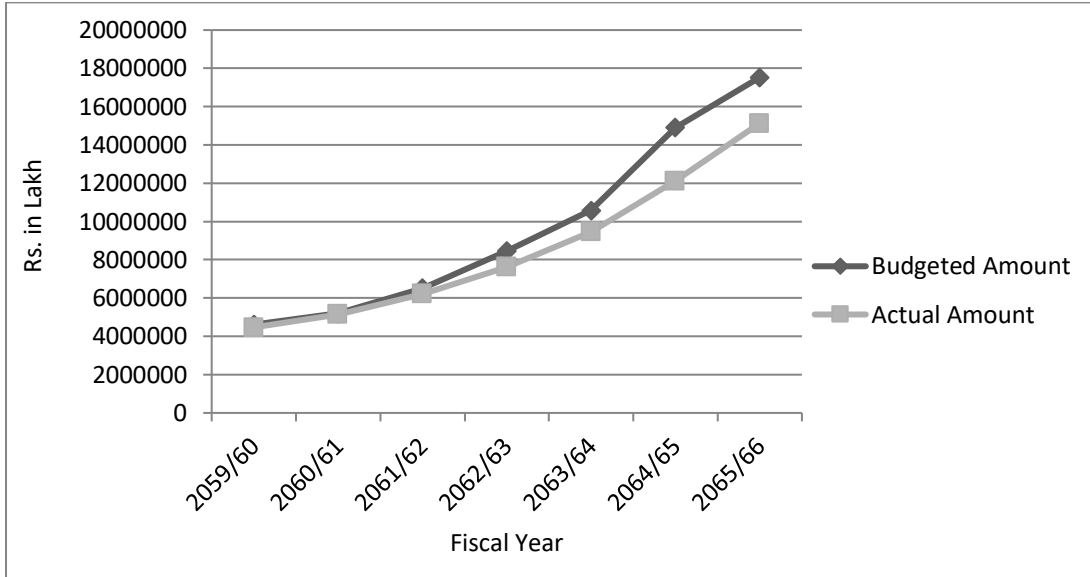
Figure 4.5

Bar Diagram of Budgeted and Actual LDO of NSBI



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LDO has almost met the budgeted LDO in every year. For the more analysis purpose the figure of budgeted and actual LDO in presenting in scatter diagram to show the relationship between budgeted figure and actual achievement throughout the study period.

Figure 4.6
Trend Line showing the Status of Budgeted and Actual
Deployment in LDO of NSBI



The Budgeted deployment in LDO is in higher position than actual LDO throughout the study period it means the scatter diagram shows that the relation between actual achievements is quite down than budgeted LDO. This researcher is going to find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools. The summary of LDO budget and achievement are presented below.

Table 4.6
Summary of Budgeted LDO and Achievement

(Rs. in 'Lakh')

Statistical Tools	Budgeted LDO(X)	Actual LDO(Y)
Mean	9682900	8592900
Standard Deviation	4666600	3613100
C.V	47.32%	42.05%
R	0.9970	
PE	0.001545 (r>6PE)	

Source: Appendix - 2

The above table shows that budgeted LDO is less variable than actual LDO. Since the coefficient of variations of actual LDO is smaller than that of budgeted LDO, smaller CV represent homogeneous to the data. Actual LDO are more homogeneous than budgeted.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and Actual LDO. There should be positive correlation between budgeted and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO.. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y. Here X is independent variable and Y is dependent variable. Here the correlation between budgeted and actual LDO is 0.9970 it means the relation between budgeted and actual LDO are perfectly correlated. Significance of r is tested with PE we have $r > 6 PE$ this means the value of r is more significant. So it is no doubtful that actual LDO will go on same direction that of budgeted LDO.

From the calculation in appendix no 2, we have obtained the value of r being 0.9970. Now the coefficient of determination which explains the change in Y variable i.e. actual LDO by X variable i.e. budgeted LDO can be calculated as the square of r. $r^2 = (0.9970)^2 = 0.9940$. Another statistical tool, regression line can also be fitted to show the degree of relationship between budgeted LDO and actual LDO and the forecast the achievement with given target. For this purpose, achievement figure have been supposed to be depended up on independent target. So that the regression line of achievement 'Y' on targeted 'X' or Y on X is as follows:

$$Y - \bar{Y} = r \frac{\sigma_Y}{\sigma_X} \times (X - \bar{X})$$

$$Y - 85929 = 0.9970 \times \frac{36131}{46666} (X - 96829)$$

$$Y - 85929 = 0.772(x - 96829)$$

$$Y = 0.772X + 11177$$

From the above equation, it is clear that actual LDO are in increasing trend. By the help of this regression equation, we ascertain the expected LDO achievement with the given value of target LDO say X for fiscal year 066/067 = 225000

When X = 225000

Then expected LDO achievement

$$y = 0.772 \times 225000 + 12435.79$$

$$y = 184877(00000)$$

4.4.2 Resources Deployment in Other Sector (NLDO)

The portfolio of NLDO consists of liquidity in terms of cash and bank balance, investment, fixed and current assets. The budgeted and actual deployment in other sector listed in following table over the study period.

Table 4.7

Status of Budgeted and Actual Deployment in Other Sector (NLDO)

(Rs. in 'Lakh')

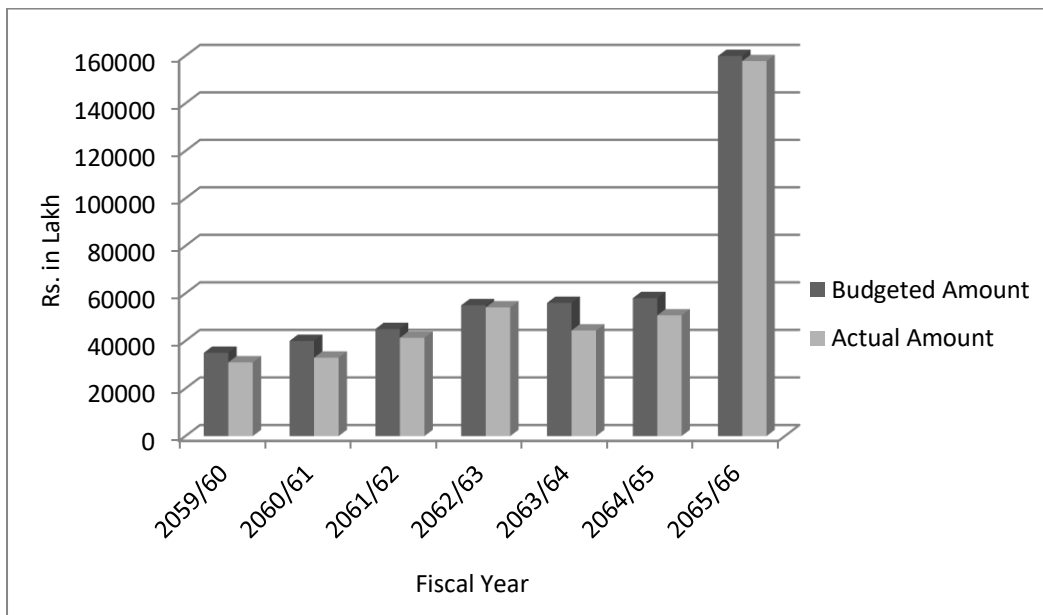
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2059/60	35000	30976.07	88.50%
2060/61	40000	32967.44	82.42%
2061/62	45000	41314.95	91.81%
2062/63	55000	54091.02	98.35%
2063/64	56000	44407.5	79.30%
2064/65	58000	50737.47	87.48%
2065/66	160000	157849.3	98.66%

Source: Annual Reports and Budget Statement of NSBI

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has achieved almost 100 % on each year. The rate of such achievement is fluctuating trend over the study period. The achievement is 88.50 % in F/Y 2059/060 and it decreased in F/Y 2060/061 to 82.42 %. Again in F/Y 2061/062 it increases to 91.81 % and slightly fluctuating up to F/Y 2065/066. The average rate of achievement over the five year is 89.50 % this indicate that the bank have to achieved its target by 11.50 % approximately .For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Figure 4.7

Bar Diagram Showing Status of Budgeted and Actual NLDO of NSBI



Above table and diagrams shows that almost 100% of achievement of targets in deployment of resources other than LDO that is NLDO. to show the relationship between budgeted and actual NLDO we have calculated some values by using statistical tool below

Table 4.8
Summary of NLDO of NSBI

Statistical Tools	Budgeted NLDO(X)	Actual NLDO (Y)
Mean	6414300	8560000
Standard deviation	3995500	2205300
C.V.	62.29%	69.83%
r	0.997	
P.E.	0.0016(r>6P.E.)	

Source: Appendix - 3

The above table shows the summary of investment in other sector (NLDO). The average investment in other sector is about to the budgeted figure. It means the target has been almost achieved. The actual NLDO is more variable in nature since it has higher C.V it means that the budgeted figure is more consistent a greater C.V. is said to be more heterogeneous. The correlation between budgeted and actual NLDO is denoted by r. The value of r is 0.997 so the relationship between budgeted and actual figure is highly correlated. The significant of r can be measured by the probable error here the $r > 6PE$ so the r is significant.

4.4.3 Actual Deposit and Outstanding LDO of NSBI

Customer deposit and deployment in LDO is major activities of NSBI. As it is understood the major source of resources mobilization of NSBI is the customer deposit and similarly the major outlet for deployment portfolio is for loan and advance and bills discount (LDO). It is desirable to analyze the comparative status of the same for the study period. Following table shows actual balance of deposit and actual position of deployment toward LDO.

Table 4.9
Status of LDO VS Actual Deposit of NSBI

(Rs. in Thousand)

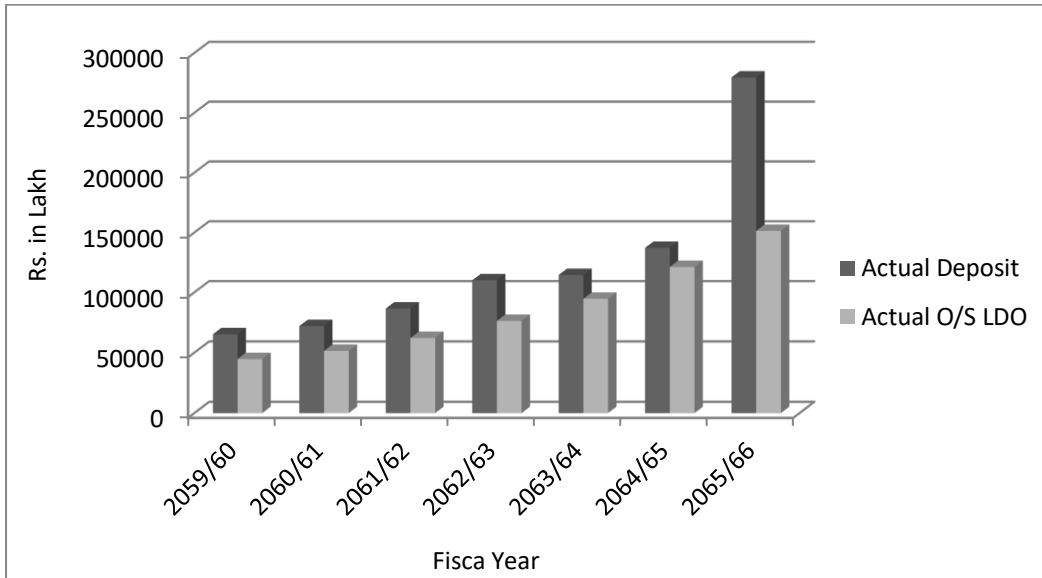
Fiscal Year	Actual Deposit (Balance)	Actual O/S LDO	LDO to Deposit Ratio
2059/60	65228	44687	68.51%
2060/61	71983	51437	71.46%
2061/62	86548	62139	71.80%
2062/63	110020	76267	69.32%
2063/64	114453	94605	82.66%
2064/65	137154	121137	88.32%
2065/66	279572	151317	54.12%

Source: Annul Reports of NSBI 2059/2060 to 2065/2066

The above table 4.9 shows the status of actual deposit balance and actual o/s LDO. The actual deposit balance and actual o/s LDO both are in increasing trend throughout the study period. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage. The range of LDO to deposit ratio is 54.12% to 88.32%. This indicates that the bank invests in LDO out of total deposit in the range of 54.12% to 88.32% over the seven year time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presented in the figures.

Figure 4.8

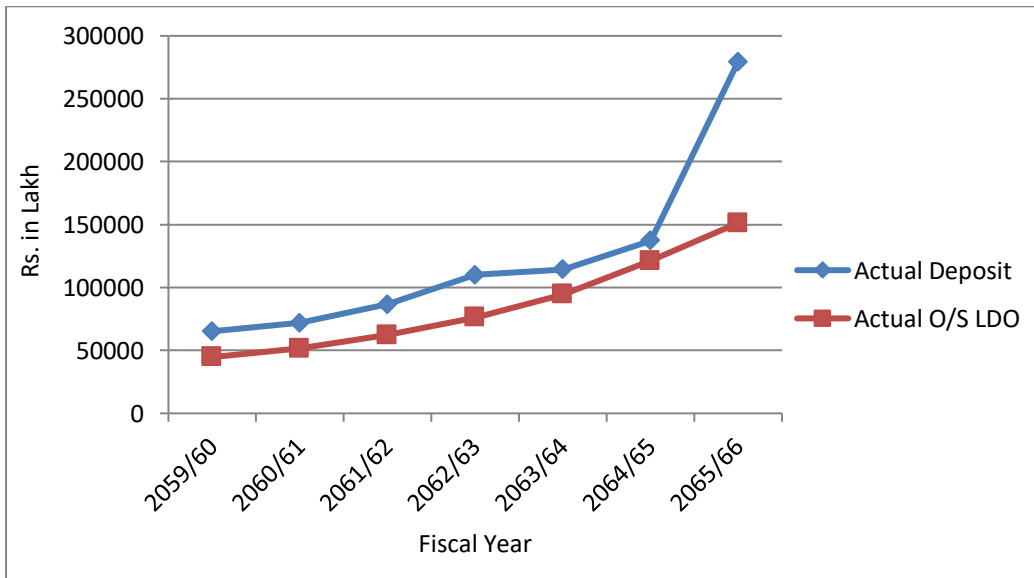
Bar Diagram Showing Actual Deposit and Actual LDO of NSBI



The above diagram is showing the position of actual deposit balance and actual outstanding balance of LDO. The position of actual deposit is higher than the actual LDO. Both are in increasing trend throughout the study period.

Figure 4.9

Trend Line Showing Actual Deposit and Actual LDO of NSBI



From the above table and figures it can be found that both the deposit and LDO is in increasing trend over the period. The average ratio of LDO to deposit is 72.00 %. It means that the bank invest in NLDO 26.00 % in average. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error.

Table 4.10
Summary of Actual Deposit and Actual O/S LDO

(Rs. in ‘Lakh’)

Statistical Tools	Actual Deposit	Actual O/S LDO
Mean	123543	85929
Standard Deviation	67863	36131
C.V	54.93%	42.04%
r	0.9204	
P.E	0.0390(r>6PE)	

Source: Appendix – 4

The above table shows that actual O/S LDO is less variable than actual deposit since it has lower C.V. On the other hand actual deposit less consistent than outstanding LDO it means the deposit is variable in nature. The relationship between actual deposit and actual outstanding LDO can be measured by correlation between them. We can take the help of Karl Person’s Co-efficient of correlation to find correlation between actual deposit and actual outstanding LDO. The correlation r is 0.9204 this means it is perfectly correlated between actual deposit and actual outstanding LDO. Significance of correlation r is tested with probable error (PE) here the $6PE < r$ so the calculation of r is highly significance.

4.5 Interest Expenses

The bank collected from various sources. Among them some are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment

of cost of such deposit amount which are interest bearing deposit. The interest holds highest percentage of expenses amount because deposit holds highest portion of total available resources. The bank may have different interest rate in different types of account. Here, the researcher going to analyze the average cost of deposit throughout the study period.

Table 4.11
Status of Average Cost of Deposit

(Rs. in ‘Lakh’)

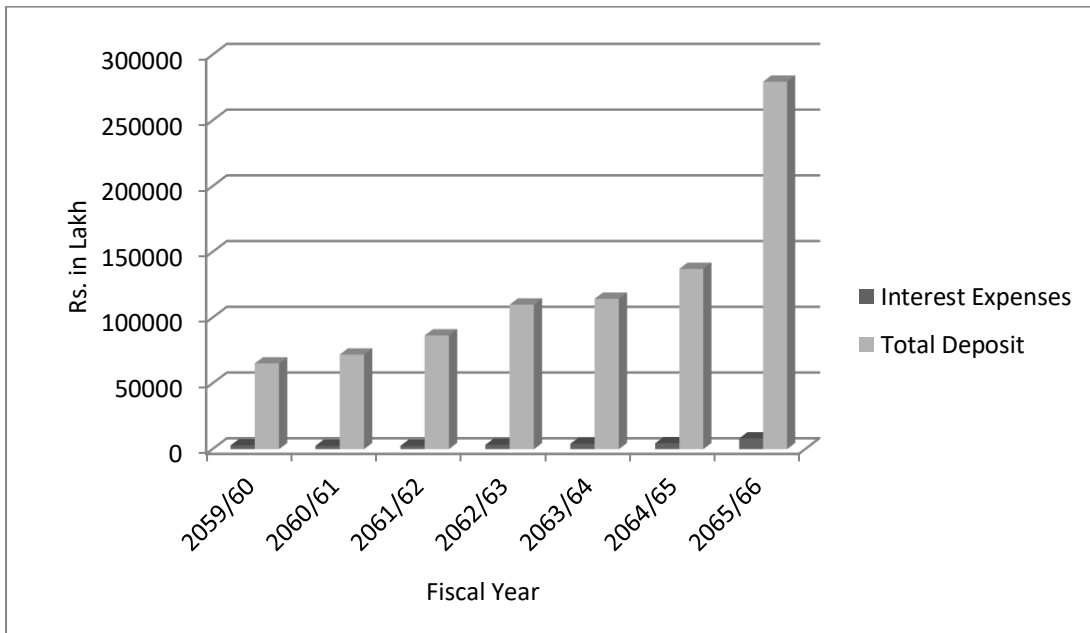
Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2059/60	2918.20	65228	4.47%
2060/61	2559.19	71983	3.56%
2061/62	2584.30	86548	2.99%
2062/63	3347.70	110020	3.04%
2063/64	4122.62	114453	3.60%
2064/65	4549.18	137154	3.32%
2065/66	8247.00	279572	2.95%

Source: Annual Reports of NSBI 2059/2060 to 2065/2066

The above table shows the total deposit and interest expenses of respective year. The deposit amount is in increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The NSBI cost of deposit (interest) range between 2.95 % to 4.47 % over the study period. The cost of deposit of the bank is fluctuate nature but slightly decreasing trend. In this situation also bank decrease cost of deposit it shows the achievement of the bank. The relation between COD and total deposit can shows on the bar diagram below.

Figure 4.10

Bar Diagram Showing Average Cost of Deposit



The bar diagram shows the status of interest expenses and total deposit in respective fiscal year. The amount of total deposit is in increasing trend likewise interest is changing trend accordingly. The amount of interest expenses is increasing every year.

Table 4.12

Summary of Actual Deposit and Interest Expenses

(Rs. in 'Lakh')

Statistical Tools	Actual Deposit(X)	Interest Expense(Y)
Mean	123543	4029
Standard Deviation	67863	1833
CV	54.93%	45.50%
R	0.9866	
PE	0.0068(r<6PE)	

4.6 Interest Income

Interest income also called return of LDO contributes major portion of total revenue mix.

Now, researcher is going to analyze the comparative status of total return on LDO with the help of table & diagrams.

Table 4.13
Status of Average Return of LDO

(Rs. in 'Lakh')

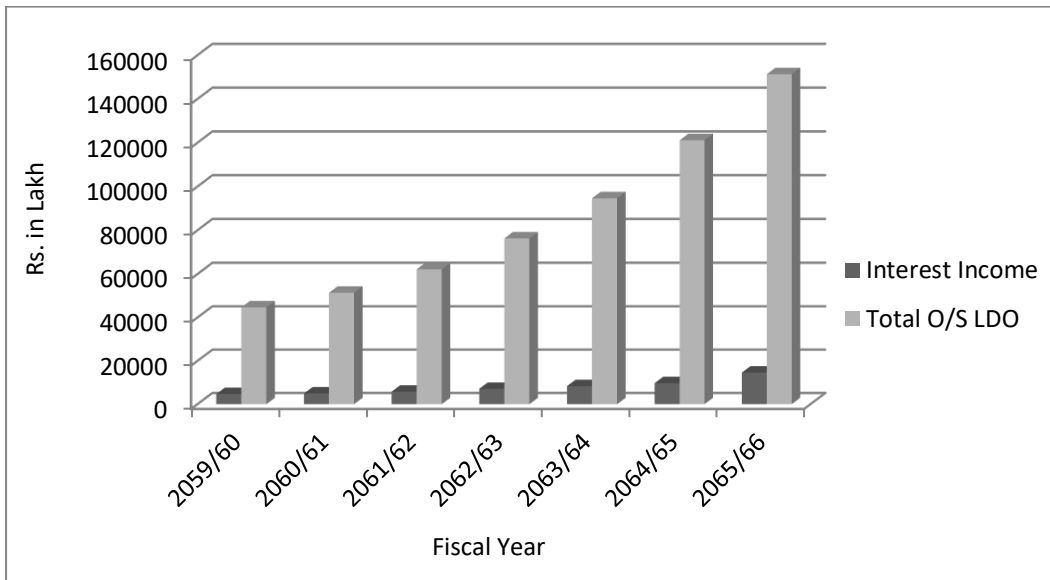
Fiscal Year	Interest Income	Total O/S LDO	Average Rate of Return
2059/60	4697.4	44687	10.51%
2060/61	4935.98	51437	9.60%
2061/62	5783.72	62139	9.31%
2062/63	7087.19	76267	9.29%
2063/64	8311.17	94605	8.79%
2064/65	9705.13	121137	8.01%
2065/66	14604.5	151317	9.65%

Source: Annual Reports of NSBI 2059/2060 to 2065/2066

The above table shows the comparative status of interest income with the o/s LDO and the return on same LDO. The interest income is in fluctuating trend as the LDO has increased whereas the rate of return on LDO is fluctuating trend. The range of rate of return lies between 8.01% to 10.51 %, in the seven year period. It is effective to analyze the relationship between o/s LDO and interest income by using the statistical tools to find out the variability of actual LDO and actual income of different years we have to calculate arithmetic mean, standard deviation coefficient of variation, coefficient of determination and correlation of coefficient. The detail calculations of these statistical tools are presented in appendix no 6 now summary of calculation listed below.

Figure 4.11

Bar Diagram Showing Average Return from LDO



The bar diagram shows the status of interest income and total LDO in respective fiscal year. The amount of total LDO is in increasing trend likewise interest is changing trend accordingly. The amount of interest income is increasing every year.

Table 4.14

Summary of Actual LDO and Interest Income

(Rs. in 'Lakh')

Statistical Tools	Actual LDO(X)	Interest Income(Y)
Mean	85929	7871
Standard Deviation	36131	3724
CV	42.05%	47.31%
R	0.8472	
PE	0.0719(r<6PE)	

Source: Appendix - 5

The above results show that actual o/s LDO is less variable than interest income since CV of LDO is lower than of interest. There is positive correlation between

o/s LDO and interest income. In other words the interest income increases as the o/s LDO increase or vice versa. To find the correlation between interest income and actual o/s LDO we can take the help of Karl person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between interest income and actual LDO. The actual LDO (X) is assumed as independent variable and interest income (Y) is assumed to be dependent variable. So that increase in LDO will support to increase in interest income and vice versa. After this significance of 'r' is tested with the probable error of 'r'. The value of r is 0.8472 & P.E is 0.4317 since $r < 6PE$ the value of r is insignificant. From the calculation shown in appendix no 6 the value of r is 0.8472. Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LDO can be calculated as the r^2 . $r^2 = (0.8472)^2 = 0.7177$.

4.6.1 Interest Margin

The difference between interest income and interest expenses is called interest margin. Following table shows the movement in interest margin throughout the study period of NSBI.

Table 4.15
Movements in Interest Margin of NSBI

(Rs. in 'Lakh')

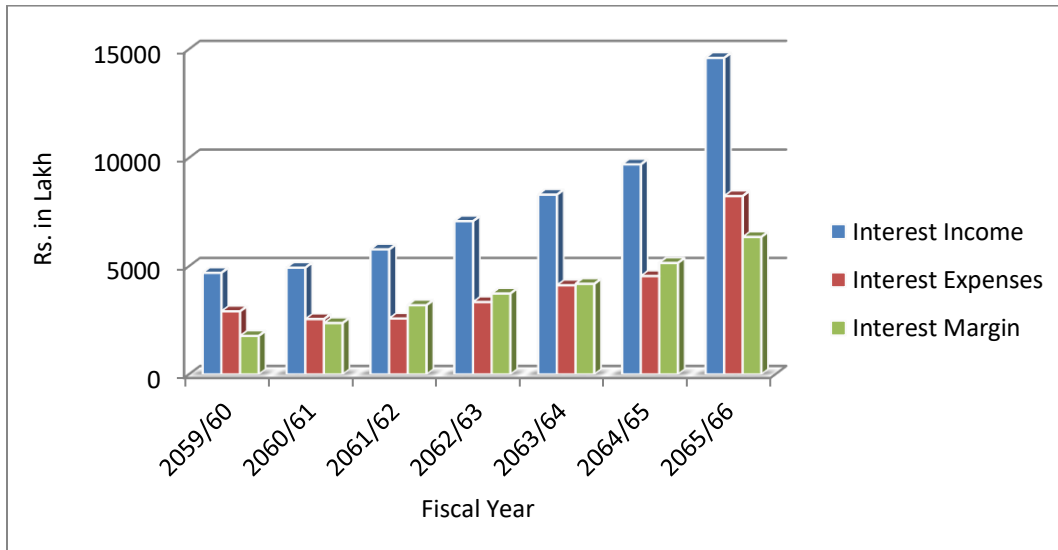
F/Y	Interest Income(X)	Interest Expenses(Y)	Interest Margin(X-Y)	Growth in Interest Margin
2059/60	4697.4	2918.20	1779.20	
2060/61	4935.98	2559.19	2376.79	33.59%
2061/62	5783.72	2584.30	3199.42	34.61%
2062/63	7087.19	3347.70	3739.49	16.88%
2063/64	8311.17	4122.62	4188.55	12.01%
2064/65	9705.13	4549.18	5155.95	23.10%
2065/66	14604.5	8247.00	6357.46	23.30%

Source: Annual Reports of NSBI 2059/2060 to 2065/2066

The above table shows the position of interest margin and its growth throughout the study period. The figure of interest margin is fluctuating trend every year. The base year to calculate the interest margin is F/Y 2059/060. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

Figure 4.12

Bar Diagram Showing Interest Margin of NSBI



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of NSBI. The fundamental purpose of this diagram is to show the relationship of interest margin so the trend of interest margin throughout the seven years period is fluctuating.

4.7 Performance Evaluation of NSBI

Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organizational goal. Here researcher going to analyze by using various technique and criteria to evaluate performance of NIBL some financial tools is as follows:

- Ratio Analysis
- Cost Volume Profit Analysis

4.8 Ratio Analysis

“Ratio refers to the numerical relation of component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristics and conditions of firm” (Bagavati and Pilli, 2000: 1339). Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performance of an organization by creating the ratios from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

- Liquidity Ratio
- Leverage Ratio
- Activity Ratio
- Profitability Ratio

4.8.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short term financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities. Here the researcher is going to calculate the current Ratio of NSBI. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities are shown on appendix No 5.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.16
Current Ratio of NSBI

(Rs. in 'Lakh')

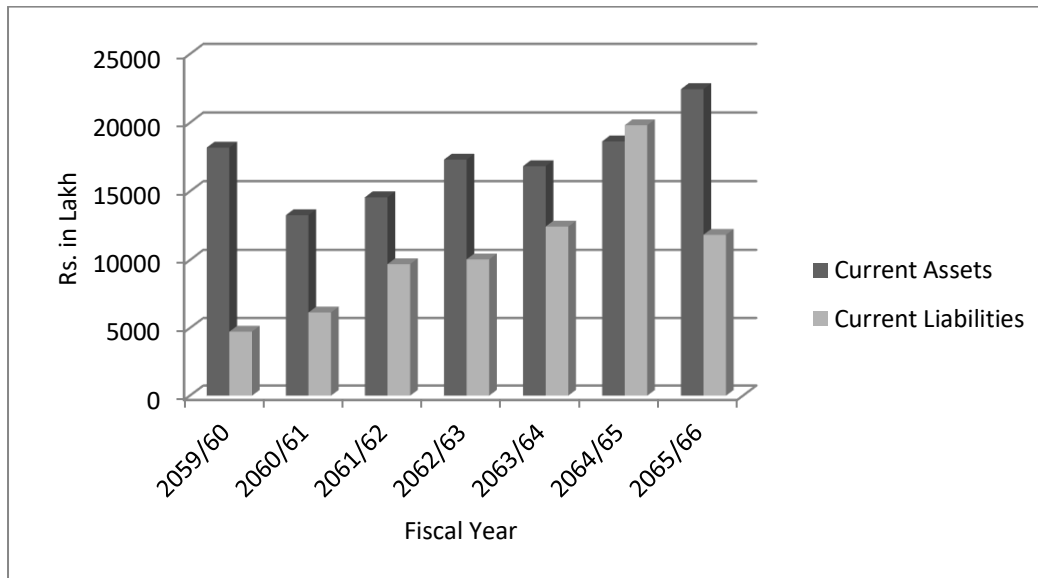
Fiscal Year	Current Assets(X)	Current Liabilities (Y)	Current Ratio(X/Y)
2059/60	18192.98	4736.58	3.84:1
2060/61	13268.73	6154.42	2.16:1
2061/62	14573.63	9704.63	1.5:1
2062/63	17316.15	10051.86	1.72:1
2063/64	16840.78	12437.68	1.35:1
2064/65	18646.38	19822.91	0.94:1
2065/66	22451.71	11839.06	1.90:1

Source: Appendix – 6

The above table shows the liquidity position of NSBI. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. The current ratio of NSBI has almost met the standard of 2:1. but it is not satisfactory beginning year it shows higher CA than CL and some year shows less CA than CL too. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

Figure 4.13

Bar Diagram Showing Current Assets and Current Liabilities of NSBI



Above bar diagram shows the status of current assets and current liabilities of NSBI over the seven years period. By the diagram the position of current assets is higher than the position of current liabilities every year except 2064/65. It means the bank have to maintained its liquidity position every year for good performance.

4.8.2 Leverage Ratio

The leverage ratio also called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These ratios measure the firm's ability to pay the interest regularly and to pay the principal on maturity. The following ratios are included in leverage ratio.

- Debt- Equity Ratio
- Interest Coverage Ratio

4.8.3 Debt-Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the long term financial solvency of a business concern.

It is calculated by dividing to long term debt by Share holder's equity. The Debt-Equity Ratio can be calculated dividing to borrowings by share holder equity the details of borrowings and share holders equity shown on appendix No.7.

$$\text{Debt-Equity Ratio} = \frac{\text{Borrowings}}{\text{Shareholder's Equity}}$$

Table 4.17
Debt-Equity Ratio of NSBI

(Rs. in 'Lakh')

Fiscal Year	Borrowing (X)	Share Holder Equity (Y)	Debt-Equity Ratio (X/Y)
2059/60	658.26	6186.00	0.11:1
2060/61	1171.78	6874.89	0.17:1
2061/62	4696.29	7464.00	0.63:1
2062/63	8124.29	10993.76	0.74:1
2063/64	10153.65	14181.99	0.72:1
2064/65	18274.8	16624.16	1.1:1
2065/66	9274.66	20289.80	0.46:1

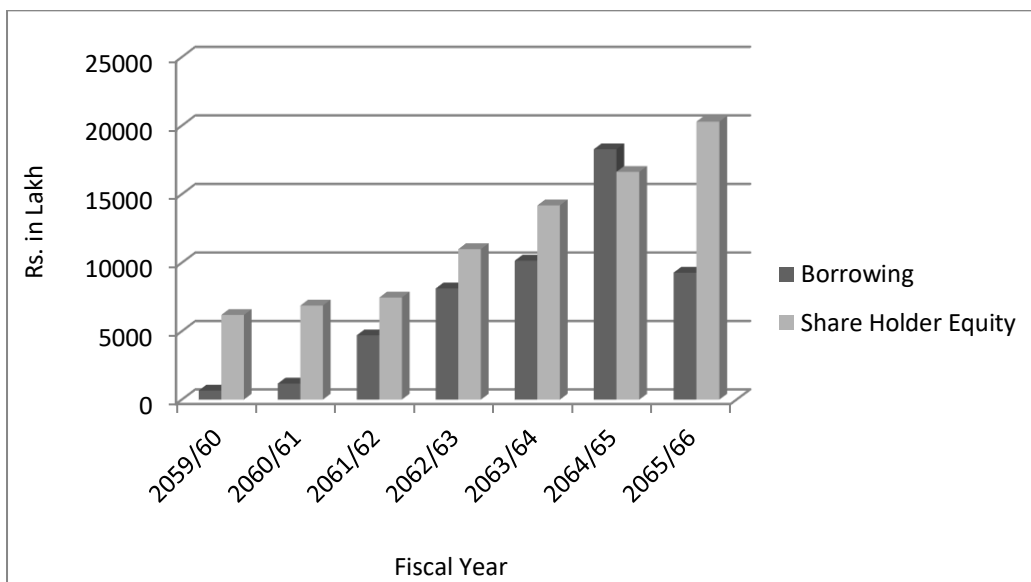
Source: Appendix - 8

The above table shows the debt equity ratio of NSBI. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing the column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of NSBI is 0.46:1 to 1.1:1. The trend of debt equity ratio is fluctuating every year. NSBI has high portion of equity than long term debenture

where as for a banking sector fixed deposit is also considered as long term obligation but in above analysis researcher has calculated only borrowing as long term debt. The above table shows that NSBI's financial strength is strong because it has more internal fund to repay the borrowing capital except 2064/65. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

Figure 4.14

Bar Diagram Showing Borrowing and Shareholder's Equity of NSBI



From the diagram it shows the status of long term debt and share holder's equity. The long term debt is in fluctuating trend and shareholder equity is increasing rapidly over the seven year's period. The position of shareholder equity is higher than the long term debt except 2064/65. This indicates that the bank used more internal fund than external fund.

4.8.4 Interest Coverage Ratio (ICR)

ICR measures the capacity to pay interest expenses. This ratio is calculated by dividing Net Profit before Interest & Tax (EBIT) by Interest cost amount.

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Expenses}}$$

Table 4.18
Calculation of Interest Coverage Ratio

(Rs. in Thousand)

Fiscal Year	EBIT(X)	Interest Expenses (Y)	Times
2059/60	3608.73	2918.20	1.24
2060/61	3654.51	2559.19	1.43
2061/62	3836.23	2584.30	1.48
2062/63	5345.34	3347.70	1.60
2063/64	7568.52	4122.62	1.84
2064/65	8029.52	4549.18	1.77
2065/66	12677.32	8247.00	1.54

Source: Annual Reports of NSBI 2059/2060 to 2065/2066

The above table shows the position of interest coverage ratio (ICR) of NSBI. The ICR is 1.24 times in F/Y 2059/060 this means EBIT is 1.24 times more than interest expenses. Likewise the ICR reached to 1.43 times in F/Y 260/061. This result represents the NSBI has increased its EBIT. Again the rate increased to 1.48 in F/Y 2061/062, 1.60 in 2062/63, 1.84 in 2063/64 but it decreased in 2064/065 and 2065/66. The interest coverage ratio of NSBI ranges between 1.24 to 1.84 Times. It means that the bank sufficiently capable to pay the interest expenses.

4.8.5 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here researcher is going to measure of NSBI profitability by

total assets & total capital fund to Net profit. It is computed by dividing to Net profit by Total Assets & Net Profit to total capital fund.

Table 4.19
Profitability Ratio of NSBI

(Rs. In. 'Lakh')

Fiscal Year	Net Profit after Tax(A)	Total Assets (B)	Return on Assets (C=A/B)	Total Capital Fund (D)	Return on Capital (E=A/D)
2059/60	487.48	75663.27	0.64%	5698.52	8.55%
2060/61	608.52	84404.06	0.72%	6266.37	9.71%
2061/62	573.87	103453.73	0.55%	6890.13	8.33%
2062/63	1170.02	130358.39	0.90%	9823.74	11.91%
2063/64	2549.09	139012.01	1.83%	11632.91	21.91%
2064/65	2477.71	171874.46	1.44%	14146.45	17.51%
2065/66	3163.73	309166.82	1.02%	17126.07	18.47%

Sources: Annual Reports of NSBI 2059/2060 to 2065/2066

The above table shows the status of return on assets and return on capital employed of NSBI. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of on assets is fluctuating trend and it is ranged between 0.55 % to 1.83 % throughout the seven years period. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 8.33 % to 21.91 % it is fluctuating trend through seven years of study period.

4.9 Major Findings of the Study

- The bank has 86% average contribution of customer deposit in the resources mobilization as per the data F/Y 2059/60 to 2065/066 and uses the other resources of 14 % in average.

- NSBI is well performing in the deposit collection sector. Actual deposit is almost to the budgeted figure. It is found (r) is 0.9998 and PE is 0.0001. 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 2066/067 will be RS 318,663,740,000 stated by the regression line.
- The statistical tool CV represents that NSBI's Budgeted LDO is the variable nature than actual LDO. The correlation between budgeted and actual LDO is 0.9970 it means the relation between budgeted and actual LDO are high degree of positive co-related. Significance of r is tested with PE there is $r > 6PE$ this means the value of r is more significant. So it is not doubtful that actual LDO will go on same direction that of budgeted LDO. The regression line shows the expected LDO for the F/Y 2066/67 will be Rs.18,487,700,000.
- The researcher find that the almost 100 % of achievement of targets in deployment of resources other than LDO i.e. NLDO.
- LDO is in fluctuating trend over the period. Although The average ratio of LDO to deposit is 72.00 %.
- The relationship between actual deposit and actual O/S LDO is in fluctuating trend over the period.
- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of NSBI is in the range of 2.95% to 4.47% it means the bank pays the interest 3.71 % 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 8.01% to 10.51 %. The average rate of return over the study period is 9.26%.

- The amount of interest margin of NSBI is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period.
- The current ratio of NSBI has almost met the standard of 2:1 but not in well position.
- Debt-Equity ratio shows that the NSBI's financial strength is very strong because it has more internal fund to repay the borrowing capital except 2064/65.
- The interest coverage ratio of NSBI ranges between 1.24 to 1.84 Times.
- The range of return on total assets is 1.55 to 1.83 % and range of return of total capital fund is 8.33 to 21.91 % over the period.
- The cash flow analysis of the NSBI shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is focused on the findings and conclusions obtained from the study of “Profit Planning in commercial banks: A case Study of Nepal SBI Bank Limited” This chapter is comprised of three sections, the first section deals with the summary of the study; the second section draws the conclusions of the study. Lastly, the third section proposes the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic constraints.

The economic growth of a country can't imagine without financial institutions. Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and

investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NSBI. The study is mostly based on secondary data and required data have been collected by using various sources. There are 28 commercial banks operating in Nepal which are taken as population of the study among them NSBI has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools.

NSBI is one of the well established commercial bank in Nepal. NSBI is able to maintain. Its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the NSBI. Profit planning and controlling system of NSBI is very effective because it has generated more profit year after year. There is variance in budgeted and actual performance but it has always achieved almost budgeted figure. Analysis concludes that growth of bank is significant. NSBI is increasing its internal fund by increasing capital year by year this means strengthen their capability internally. NSBI is almost able to meet its targeted deposit collection, deployment of LDO. The relationship between budgeted and actual figures is positively correlated. The non fund consuming business of NSBI is also remarkable since it gives the return to bank without investing the fund. The average cost of deposit (COD) of bank is normal it means the bank is able to collect cost free deposit. The major income source is interest margin the trend of interest margin is increasing trend every year. The liquidity position of NSBI is better position bank has maintained the cash and bank balance to met the current obligations. The financial strength of NSBI is strong since Debt equity ratio shows that the NSBI use more internal fund to repay

its borrowings. The return on assets and return on capital is satisfactory of NSBI it shows the good earning capacity of the bank. The result of the study shows the overall performance of NSBI is satisfactory and progressive. Finally its all activities are quite different in year 2065/66 due to its branch expansion. Deposit seems high, LDO also high, and the expenses and assets also in the high range.

Together its goodness it show Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budgeted.

The budgeted is not based on past performance but on targeted growth, which is very optimistic in both budgeted year.

NSBI has lack of clear cut mission and goals of the company inadequate coordination between departments, unnecessary interference of the governing board in the functioning organization.

The bank is facing competition from increasing number of financial institution in these years. These had led to substantial decrease in interest rates in the market thus attributing to lower yield showing in appendix 9.

But NSBI has strength of -highly experience staff at the top level to down level with extensive exposure in international banking environment.

- Huge volume of business origination from successful businessman of Indian origin.
- Extensive network of Branches Company in India of its parent company State Bank of India.
- Very friendly and cordial ties between Nepal and India in all aspects.
- Increasing volume in cross border trade between India and Nepal.

5.3 Recommendations

This researcher would like to provide some suggestion for the better improvement of bank in future. This recommendation based on the study on profit planning of NSBI these is as follows:

- Nepal's accession to the WTO would permit international banks to operate in Nepal so NSBI need to make their business plan and strategy accordingly which can convert challenges in to opportunities.
- Financial institutions increasing day by day in Nepal it grows the competition with the banks so NSBI should make some policy to keep its position as before among the Nepalese financial institutions.
- NSBI should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainty etc and give more attention to improve technological resources
- Every business concerns have one another obligation i.e. corporate social responsibility so NSBI needs more involvement in social activities in the coming days.
- NSBI's major source of resources collection is deposit since this is the cost bearing sources the bank is suggest increasing cost free resources too, and reducing the burden of the bank.
- The bank needs to put more focus on the non fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
- Expenses grow as the volume of activities increases so it can't be avoided but can be controlled. The bank can minimize those expenses not related for income generating activities so the bank enhances its profitability.
- People in rural area of Nepal still out of banking services so NSBI is suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.

- The ‘Global Economic Crisis 2008’ started from banking sector of USA this crisis may affects to Nepalese financial sectors too so the NSBI suggested to make some policy to be safe from this crisis.
- Cross product selling is also the best way to reduction of cost and increase profit.
- The size of Nepali banking market is increasing day by day. The increase in number of financial institutions indicates the increasing competition in financial market. To monitor with proper regulation this even more, the government had to bring new strategies. Moreover, foreign banks are allowed to operate in Nepal from 2010 A.D there will be more challenge for Nepalese financial institutions. The central bank of Nepal (NRB) should make some policies toward the banking sector to comfort and able to compete with this ever increasing financial institutions.

The research report is concluded with the above mentioned major findings, summary, conclusions, and recommendations.

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APPENDICES

Appendix - 1

Deposit Collection Budget of NSBI

Amount ('0000000)

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	xy	x ²	y ²
2059/2060	661	652	-599.43	-583.43	349725.47	359316.33	340390.56
2060/2061	736	720	-524.43	-515.43	270306.95	275026.83	265668.08
2061/2062	909	865	-351.43	-370.43	130180.21	123503.04	137218.39
2062/2063	1129	1100	-131.43	-135.43	17799.56	17273.85	18341.28
2063/2064	1181	1144	-79.43	-91.43	7262.28	6309.12	8359.44
2064/2065	1402	1371	141.58	135.58	19192.64	20042.06	18379.23
2065/2066	2805	2796	1544.57	1560.57	2410409.60	2385696.48	2435378.73
	$\Sigma X =$ 8823	$\Sigma Y =$ 8648	$\Sigma X = 0$	$\Sigma y = 0$	$\Sigma xy =$ 3204876.71	$\Sigma x^2 =$ 3187167.71	$\Sigma y^2 =$ 3223735.71

$$\bar{X} = \frac{\Sigma X}{N} = \frac{8823}{7} = 1260.43$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{8648}{7} = 1235.43$$

$$\sigma_x = \sqrt{\Sigma \frac{x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{3187167.71}{7} - 0} = 674.77$$

$$\sigma_y = \sqrt{\Sigma \frac{y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{3223735.71}{7} - 0} = 678.63$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{3204876.71}{\sqrt{3187167.12} \times \sqrt{3223735.71}} = 0.9998$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{674.77}{1260.43} \times 100 = 53.53\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{678.63}{1235.43} \times 100 = 54.93\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9998^2}{\sqrt{7}} = 0.0001$$

$$6PE = 6 \times 0.0001 = 0.0006 (r > 6PE)$$

Appendix - 2

Summary of Budgeted LDO and Achievement

Amount ('0000000)

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	xy	x ²	y ²
2059/2060	461	447	-507.27	-412.27	209150.17	257343.14	169983
2060/2061	520	514	-448.27	-345.27	154790.10	200963.90	119225.2
2061/2062	651	621	-317.28	-238.28	75607.03	100672.56	56782.12
2062/2063	845	763	-123.28	-96.28	11871.55	15200.42	9271.76
2063/2064	1058	946	89.71	86.71	7778.75	8047.88	7518.62
2064/2065	1491	1211	522.71	351.71	183842.30	273225.70	123699.9
2065/2066	1752	1513	783.71	653.71	512319.10	614201.40	427336.8
	$\Sigma X =$ 6778	Σy =6015	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ 1155359	$\Sigma x^2 =$ 1469655	$\Sigma y^2 =$ 913817.4

$$\bar{X} = \frac{\Sigma X}{N} = \frac{6778}{7} = 968.29$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{6015}{7} = 859.29$$

$$\sigma_x = \sqrt{\Sigma \frac{x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{1469655}{7} - 0} = 458.20$$

$$\sigma_y = \sqrt{\Sigma \frac{y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{913817.4}{7} - 0} = 361.31$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{1155359}{\sqrt{1469655} \times \sqrt{913817.4}} = 0.997$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{458.20}{968.29} \times 100 = 47.32\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{361.31}{859.29} \times 100 = 42.05\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9970^2}{\sqrt{7}} = 0.001545$$

$$6PE = 6 \times 0.001545 = 0.00927 (r > 6PE)$$

Appendix - 3

Budgeted and Actual NLDO of NSBI

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	xy	x ²	y ²
2059/60	350	310	-291.43	-279	81308.97	84931.44	77841
2060/61	400	330	-241.43	-259	62530.37	58288.44	67081
2061/62	450	413	-191.43	-176	33691.68	36645.44	30976
2062/63	550	541	-91.43	-48	4388.64	8359.445	2304
2063/64	560	444	-81.43	-145	11807.35	6630.845	21025
2064/65	580	507	-61.42	-82	5036.44	3772.416	6724
2065/66	1600	1578	958.57	989	948025.7	918856.4	978121
	$\sum X =$ 4490	$\sum Y =$ 4123	$\sum x = 0$	$\sum y = 0$	$\sum xy =$ 1146789	$\sum x^2 =$ 1117484	$\sum y^2 =$ 1184072

$$\bar{X} = \frac{\sum X}{N} = \frac{4490}{7} = 641.43$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{4123}{7} = 589.00$$

$$\sigma_x = \sqrt{\sum \frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{1117484}{7} - 0} = 399.55$$

$$\sigma_y = \sqrt{\sum \frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{1184072}{7} - 0} = 411.28$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{1146789}{\sqrt{1117484} \times \sqrt{1184072}} = 0.9970$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{399.55}{641.43} \times 100 = 62.29\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{411.28}{589} \times 100 = 69.83\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9970^2}{\sqrt{7}} = 0.0016$$

$$6PE = 6 \times 0.0016 = 0.0093 \text{ (r > 6PE)}$$

Appendix – 4

Summary of Actual Deposit and Actual O/S LDO

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	xy	x ²	y ²
2059/60	652	447	-583.43	-412.29	240542.35	340390.56	169983.04
2060/61	720	514	-515.43	-345.29	177972.82	265668.08	119225.18
2061/62	865	621	-370.43	-238.29	88269.76	137218.38	56782.12
2062/63	1100	763	-135.43	-96.29	13040.55	18341.28	9271.76
2063/64	1144	946	-91.43	86.71	-7927.90	8359.44	7518.62
2064/65	1371	1211	135.57	351.71	47681.32	18379.22	123699.92
2065/66	2796	1513	1560.57	653.71	1020160.21	2435378.72	427336.76
	$\Sigma X = 8648$	$\Sigma Y = 6015$	$\Sigma x = 0$	$\Sigma y = 0$	$\Sigma xy =$ 1579739.14	$\Sigma x^2 =$ 3223735.71	$\Sigma y^2 =$ 913817.43

$$\bar{X} = \frac{\Sigma X}{N} = \frac{8648}{7} = 1235.43$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{6015}{7} = 859.29$$

$$\sigma_x = \sqrt{\Sigma \frac{x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{3223735.71}{7} - 0} = 678.63$$

$$\sigma_y = \sqrt{\Sigma \frac{y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{913817.43}{7} - 0} = 361.31$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{1579737.14}{\sqrt{3223735.71} \times \sqrt{913817.43}} = 0.9204$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{678.63}{1235.43} \times 100 = 54.93\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{361.31}{859.29} \times 100 = 42.05\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9204^2}{\sqrt{7}} = 0.0390$$

$$6PE = 6 \times 0.0390 = 0.2338 (r > 6PE)$$

Appendix - 5

Summary of Actual Deposit and Interest Expenses

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	xy	x ²	y ²
2059/60	652	29	-583.43	-11.29	6586.92	340390.56	127.46
2060/61	720	26	-515.43	-14.29	7365.49	265668.08	204.20
2061/62	865	26	-370.43	-14.29	5293.44	137218.38	204.20
2062/63	1100	33	-135.43	-7.29	987.28	18341.28	53.14
2063/64	1144	41	-91.43	0.71	-64.92	8359.44	0.50
2064/65	1371	45	135.57	4.71	638.53	18379.22	22.18
2065/66	2796	82	1560.57	41.71	65091.37	2435378.72	1739.72
	$\sum x =$ 8648	$\sum y =$ 282	$\sum x = 0$	$\sum y = 0$	$\sum xy =$ 85898.14	$\sum x^2 =$ 3223735.71	$\sum y^2 =$ 2351.43

$$\bar{X} = \frac{\sum X}{N} = \frac{8648}{7} = 1235.43$$

$$\bar{Y} = \frac{\sum Y}{N} = \frac{282}{7} = 40.29$$

$$\sigma_x = \sqrt{\sum \frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{\frac{3223735.71}{7} - 0} = 678.63$$

$$\sigma_y = \sqrt{\sum \frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{\frac{2351.43}{7} - 0} = 18.33$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{85898.14}{\sqrt{3223735.71} \times \sqrt{2351.43}} = 0.9866$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{678.63}{1235.43} \times 100 = 54.93\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{18.33}{40.29} \times 100 = 45.49\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.9866^2}{\sqrt{7}} = 0.0068$$

$$6PE = 6 \times 0.0068 = 0.0407 \quad (r > 6PE)$$

Appendix - 6

Summary of Actual LDO and Interest Income

Year	X	Y	x=X- \bar{X}	y=Y- \bar{Y}	xy	x ²	y ²
2059/60	447	47	-412.29	-13.00	5359.77	169983.04	169.00
2060/61	514	49	-345.29	-11.00	3798.19	119225.18	121.00
2061/62	621	58	-238.29	-2.00	476.58	56782.12	4.00
2062/63	763	71	-96.29	11.00	-1059.19	9271.76	121.00
2063/64	946	83	86.71	23.00	1994.33	7518.62	529.00
2064/65	1211	97	351.71	37.00	13013.27	123699.92	1369.00
2065/66	1513	146	653.71	86.00	56219.06	427336.76	7396.00
	$\Sigma X =$ 6015	$\Sigma y=551$	$\Sigma x =0$	$\Sigma y =0$	$\Sigma xy=$ 79802.01	$\Sigma x^2 =$ 913817.43	$\Sigma y^2=$ 9709.00

$$\bar{X} = \frac{\Sigma X}{N} = \frac{6015}{7} = 859.29$$

$$\bar{Y} = \frac{\Sigma Y}{N} = \frac{551}{7} = 78.71$$

$$\sigma_x = \sqrt{\Sigma \frac{x^2}{n} - \left(\frac{\Sigma x}{n}\right)^2} = \sqrt{\frac{913817.43}{7} - 0} = 361.31$$

$$\sigma_y = \sqrt{\Sigma \frac{y^2}{n} - \left(\frac{\Sigma y}{n}\right)^2} = \sqrt{\frac{9709}{7} - 0} = 37.24$$

$$r_{xy} = \frac{\Sigma xy}{\sqrt{\Sigma x^2} \times \sqrt{\Sigma y^2}} = \frac{79802.01}{\sqrt{913817.43} \times \sqrt{9709}} = 0.8472$$

$$CV_x = \frac{\sigma_x}{\bar{x}} \times 100 = \frac{361.31}{859.29} \times 100 = 42.05\%$$

$$CV_y = \frac{\sigma_y}{\bar{y}} \times 100 = \frac{37.24}{78.71} \times 100 = 47.31\%$$

$$PE = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-0.8472^2}{\sqrt{7}} = 0.0719$$

$$6PE = 6 \times 0.0719 = 0.4317 \quad (r > 6PE)$$

Appendix - 7**Calculation of Current Assets and Current Liabilities**

(Rs. in 'Lakh')

F/Y	Cash and Bank Balance	Other Current Assets	Total Current Assets	Borrowing	Other Current Liabilities	Total Current Liabilities
2059/60	13335.34	4857.64	18192.98	658.26	4078.32	4736.58
2060/61	8644.27	4624.46	13268.73	1171.78	4982.64	6154.42
2061/62	8468.58	6105.05	14573.63	4696.29	5008.34	9704.63
2062/63	14813.58	2502.57	17316.15	8124.29	1927.57	10051.86
2063/64	14726.9	2113.88	16840.78	10153.65	2284.03	12437.68
2064/65	16469.73	2176.65	18646.38	18274.8	1548.11	19822.91
2065/66	19039.06	3412.65	22451.71	9274.66	2564.4	11839.06

Appendix - 8**Calculation of Borrowing and Shareholder Equity of NSBI**

(Rs. In 'Lakh')

Fiscal Year	Borrowing	Paid up capital	Reserve	P/L	Share Holder Equity
2059/60	658.26	4251.57	1446.95	487.48	6186.00
2060/61	1171.78	4268.76	1997.61	608.52	6874.89
2061/62	4696.29	4318.66	2571.47	573.87	7464.00
2062/63	8124.29	6402.36	3421.38	1170.02	10993.76
2063/64	10153.65	6477.98	5154.92	2549.09	14181.99
2064/65	18274.8	8745.28	5401.17	2477.71	16624.16
2065/66	9274.66	8745.28	8380.79	3163.73	20289.80

Appendix - 9

Nepal SBI Bank Limited

Interest Rate and Major deposit Schemes

Type of Deposit	Rate p.a.	Min. Bal.(Rs.)	Features
<u>Saving Deposit</u>			ATM Card with charge, ABBS facility with charges, Free e- Banking
1. Normal Saving	3.00%	0.00	Free ATM Card, Free ABBS facility, Free e-Banking, Free U SIM
2. Saral Bachat	3.00%	501.00	Higher Interest for higher deposit, Free ATM Card, Free ABBS, Free e- Banking, Free U-SIM
3. Indreni Bachat	3.00% to 4.00%	10,000.00	Free ATM Card, Free ABBS facility, Free Internet Banking, Free U SIM
4. Swarnim Bachat	4.00%	50,000.00	Free ATM Card, Free ABBS facility, Free e-Banking, Free U SIM
5. Vishes Bachat	6.00%	100,000.00	Free ATM Card, Free ABBS facility, Free Internet Banking, Free U SIM, Concession in Bharat yatra Card charge, locker rent
6. Varistha Nagarik Bachat (for senior citizens, Aged 50years and above)	4.00%	500.00	Free ATM Card, Free ABBS facility, Free e-Banking, Free U SIM,
<u>USD Saving</u>	0.50%	\$ 500.00	Free ATM Card, Free ABBS facility, Free Internet Banking, Free U SIM, Concession in Bharat yatra Card charge, locker rent, <u>monthly interest payment for FD</u>
<u>Fixed Deposit(NRs)</u> on period Basis			
1 month<3 months	3.25%		Loan facility against FD before maturity
3 month<6 months	3.75%		Loan facility against FD before maturity
6 month<1 years	5.50%		Loan facility against FD before maturity
1 year<2 years	6.50%		Loan facility against FD before maturity
2 year<3years	7.00%		Loan facility against FD before maturity
3 year<5 years	7.50%		Loan facility against FD before maturity
Above 5 years up to 7 years	8.00%		Loan facility against FD before maturity

<u>Fixed Deposit (NRs) for one year & above</u>			
Below NRs 10.00 lacs	9.00%		Loan facility against FD before maturity
NRs. 10.00 lacs & < NRs.25.00 lacs	9.50%		Loan facility against FD before maturity
NRs. 25.00 lacs & < NRs.50.00 lacs	10.00%		Loan facility against FD before maturity
NRs. 50.00 lacs & < NRs.1.00 crore	10.50%		Loan facility against FD before maturity
NRs. 1.00 crore & < NRs.5.00 crore	11.00%		Loan facility against FD before maturity
NRs. 5.00 crore & < NRs.10.00 crore	11.50%		Loan facility against FD before maturity
NRs. 10.00 crore & < NRs.25.00 crore	12.00%		Loan facility against FD before maturity
<u>Recurring Deposit (RD)</u>	Equiv to FD rate		Loan facility against FD before maturity, Interest capitalization
<u>Dhanbriddhi Bachat</u>	Equiv to FD rate		Loan facility against FD before maturity, Interest capitalization
<u>Call Deposit</u>			Interest rate according to deposit amount
Below NRs. 1.00 lac	5.00%		Interest rate according to deposit amount
NRs. 1.00 lacs & < NRs. 10.00 lacs	6.00%		Interest rate according to deposit amount
NRs. 10.00 lacs & < NRs. 1.00 crore	7.00%		Interest rate according to deposit amount
NRs. 1.00 Crores and above	8.00%		Interest rate according to deposit amount