PROFIT PLANNING AND CONTROL OF NEPALESE COMMERCIAL BANKS

(With reference to BOK and LBL)

Submitted by:

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DECLARATION

I hereby declare that the work done in this thesis entitled "Profit Planning and Control of Nepalese Commercial Banks" submitted to Birendra Multiple Campus, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillments of the requirement of the degree of Master of Business Studies (MBS) under the supervision and guidance of Sushil Dahal, lecturer of Birendra Multiple Campus.

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ABBREVIATIONS

BOK	=	Bank of Kathmandu
BS	=	Bikram Sambat
CA	=	Current Assets
CETR	=	Capital Employed Turnover Ratio
CL	=	Current Liabilities
CPPC	=	Comprehensive Profit Planning & Control
CV	=	Coefficient of Variation
DDC	=	Dairy Development Corporation
FY	=	Fiscal Year
Govt.	=	Government
i.e.	=	That is
LBL	=	Laxmi Bank Limited
Ltd.	=	Limited
NRB	=	Nepal Rastra Bank
PE	=	Probable Error
PPC	=	Profit Planning & Control
SD	=	Standard Deviation
TD	=	Total Deposit
TU	=	Tribhuvan University

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

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. 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.

PPC is defined as an estimation and predetermination of revenues and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profits requirement. In the case of institutional operations it presents a plan for spending income in a manner that does not result in a loss. (Welch, 2010:147)

Profit planning is vital in a competitive profit and loss economic system. The successes of each enterprise in realizing its optimum profit in each year will be determined by the extent, to which it establishes objectives, develop co-coordinated plans to meet those objectives and exercise control results reach those planned. It includes revenues, cost, profits, cash, working capitals, fixed assets, and financing and dividends distribution (Pandey, 2011). This study focused profit planning and control in Bank of Kathmandu and Laxmi Bank Limited.

1.2 Focus of the Study

This study is designed to describe the purpose of the different kind of budget used, how they are apply and finally settled and how they assist in policy making and in financial control. The study is intended to clarify the purpose of different budgets and to identify the person responsible for different items in the problems. Generally two types of profit planning practices are used in an organization; they are strategic long range profit plan and tactical short range profit plan. Long-range profit covers the horizon of two years of more and short-range profit plan made generally for coming year. Both of these plans are equally important for the successful operations of the organization. So, to give more consideration in short range planning.

In the light of very fact as commercial bank is the back bone of the economy. It is highly useful to make the present study of Bank of Kathmandu Limited and Laxmi Bank Limited. This study is felt needed as it enables us to see crystal clear picture of the banks as to how encouraging and attractive it profitability position is, how income and expenditure status is, how its growth trend is and how far it has achieved success.

1.3 Statement of the Problems

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 was tried to analyze and examine the PPC side of commercial bank taking comparative study of Bank of Kathmandu and Laxmi Bank Limited. Furthermore the study has tried to answer the following research questions.

i) What are the variance between budgeted and actual performance of BOK and LBL in the study period?

ii) Does the bank mobilize the deposit and other resources optimally?

iii) What is the trend of overall performance of BOK & LBL?

1.4 Objectives of the Study

The fundamental objective of this study is to assess the budgeting system of BOK & LBL. To study the application of comprehensive PPC system in BOK & LBL. The others specific objectives of the study are as follows:

i) To analyze the variance of budgeted and actual performance of BOK & LBL in the study period.

ii) To analyze the BOK & LBL mobilize deposit and other resources optimally.

iii) To examine the trend of overall performance of BOK & LBL.

1.5 Significance 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 comparative study of BOK & LBL, 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. This study may be useful for managers, investors and other stakeholders and those who want to know PPC in the BOK & LBL. 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 for investors, management students, researchers, depositors, financial institutions, government and other stakeholders.

1.6 Limitation of the Study

This study has been focused on profit planning of BOK & LBL. 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:

i. The study focuses on profit planning and its application in BOK & LBL.

ii. This study has been covered five years data from FY 2009/10 to FY 2013/14 of BOK & LBL.

iii. In this study, the samples of BOK & LBL are selected among all these commercial banks. But these may not represent the character of all financial institutions.

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, Focus of the Study, Statement of Problems, Objectives of the Study, Significance of the study, limitations of the study and 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 & Analysis

The fourth chapter, which is the important chapter of the study, have been including presentation and analysis of data and major findings.

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.

Bibliography and appendices were attached at the end of the study.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature is basically a stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. The researcher has presented the conceptual framework about the commercial banks, 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 websites, NRB regulation, commercial act, BOK & LBL annual reports in the related subject matters etc.

2.1 Conceptual Review of Profit Planning

2.1.1 Concept of Profit Planning

Before explanation profit planning it is necessary to understand about profit and planning. So, these two components are explained separately below.

A) Profit

Profit means a peculiar gain, excess of return over the outlays. Profit does not just occur usually because it is not only the contribution of a single factor of production. Profit plays a great role in measuring utility and allocating it along with maximizing social-economic welfare. Generally profit requires a good deal of managerial capability and managerial talent.

A view of profit state that the entrepreneur is special type of labour and profit is a special form of wages. The entrepreneur earns profit for organizing and co-ordinating the other factor of production land, labour and capital.

Profit is the reward for bearing risks of venturing in business. It is the risk of owing something in hope of selling in later. But all economists do not agree the profit a rise due to risk. For the dynamic manufacturing industries for the most telling concept of profits depicts them as the gains in national income that are generated by the managerial desire for destination through creative innovation. (Joel, 2008: 12)

These are after all several different interpretations of the term "Profit". An economist will say that the profit is the reward for entrepreneur-ship for risk taking. A labour leader might say that it is a measure of how efficiently labour has produced and it is provides a base for negotiating a wage increase. An investor will view it as a gauge of the return on his or her money. An internal review agent might regard it as the base of determining incomes taxes. The accountant will define it simply as the excess of a firm's revenue over the expense of producing revenue in a given fiscal period. Profit is a single for the allocation of resource and a yardstick for judging managerial efficiency. (Kulkarni, 2010:245)

B) Planning

Planning is continuous process because conditions do not remain static, conditions change rapidly and therefore plans should be revised and reformulated to adapt to the changed conditions. Planning is a tool of developing and achieving the organizational objectives. "Planning is process of developing enterprise objective and selecting a future courses of action to accomplish them. It includes (a) establishing enterprise objectives (b) developing premises about the environment in which they are to be accomplished. (c) Selecting a course of action for accomplishing the objectives. (d) Initiating activities necessary to translate plans into action. (e) Current re-planning to correct current deficiencies. (Welch & Hilton, 2009: 564)

Planning is the method of thinking out acts and purpose before hand. It is the determination of action of achieves a desired result. Planning is the basic function of management; it may be defined as the selection from among alternatives of courses for future actions. It is the function by which the manager decides what goals are to be accomplished and how they are to be reached. (Welch, 2009: 44)

In conclusion, planning is very necessary things or jobs for every family, marketing and businessmen no one can achieve effective goal without planning. There are two categories of plan these are tactical or short-term plan and strategy or long-term plan.

C) Profit Planning

A profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect at the time. It is established, against which actual accomplishment is regularly compared. A plan, which is planned for achieving profit in a certain future period, is called profit plan. Every organizations wants profit to survive long in the market, but profit is not auto formulating component.

Explaining the use of budget and profit plans; they further mention that once developed mangers know that when actual expenses exceed budget limitations, there may be problems. The profit plan tells managers how much money remains to be spent in each expense category. Profit plan are also used to develop a new budgets. Information from the current profit plan, along with actual accounting information, becomes the basic for developing the next fiscal accounting year's budgets. (Welch, 2009:79)

Profit planning is the heart of management. The primary aim of profit planning is to assist in assuring the procurement of the profit planed and to provide a guide for assisting in establishing for financial control policies including fixed assets additions, inventories and the cash position. The adoption of a correctly constructed profit plans provision provides opportunity for a regular and systematic analysis of incurred of anticipated expense, organized future planning fixing of responsibilities and stimulation of effort. In short, it provides a tool for more effective supervision of individuals operations and practical administration business as a whole. (Gupta, 2005: 521)

2.1.2 Principles of Profit Planning

The main principles and purposes of profit planning as follows:

1. To provide of realistic estimated of Income and expenses for a period and of the financial position at the close of the period, detailed by areas of management reflected in the budget.
2. To provide a coordinate plan of action, which is, designed to achieve the estimates reflected in budget.
3. To provide a comparison of actual results with those budgeted and an analysis and interpretation of deviation by area of responsibility to indicate course of corrective action and to lead to improvement in procedures in building future plans.
4. To provide a guide for management decision in adjusting plan and objectives as uncontrollable conditions change.
5. To provide a ready basic for making forecasts during the budget period to guide management in making day to day decisions.

(Welch, 2009: 48)

2.1.3 Fundamental Distinction of Profit Planning

The concept of budgeting was originally established with the function of an accountant. At its origin the function of budgeting was assigned to the accountant. But in modern days budgeting is given much more importance and is regarded as a way of management and in more important sense regarded as basic techniques of decision-making and is given the name "Profit Planning and Control Program."

A will established and a well understood profit planning and control concept lends an organization to ultimate success. But a failure to grasp this concept leads to chaos for a business. So just to understand this concept better, consideration should be given to following points.

1. The mechanism of profit Planning and Control

Mechanism of Profit Planning includes the matter related with design of budget schedules, clerical computation of such schedules and routine computation and check of such schedules.

2. The techniques of profit planning and control

Techniques are special approaches and method of developing information for managerial use in decision-making process. Those approaches like forecasting sales volume, a frequent application operation research, (approaches in resolving the sales – production – inventory problems) break-even analysis, resources determinants (such as discounted cash flow approach) cash flow analysis and variable budget procedures which can be developed and used for managerial decision making process are known as techniques.

3. The Fundamentals of profit Planning and control

The fundamentals are concerned with effective application of the theory at management process. It is applied for desired management orientation; these fundamentals need to be established as a foundation of managerial commitment.

Following are some of the important fundamentals of profit planning and control.

1. Managerial involvement and commitment.
2. Organizational adaptation.
3. Responsibility accounting.
4. Full Communication.
5. Realistic expectation.
6. Timeliness.
7. Flexible application.
8. Behavioural viewpoint.
9. Activity costing.
10. Zero base budgeting.
11. Follow-up.

(Gupta, 2005: 154)

2.2 An Outline of the Fundamental Concepts of PPC

The fundamental concept of PPC includes underlying activities or task that must be generally carried out to attain maximum usefulness from PPC. (Welsch, 2009: 458)

These fundamentals have never been fuller codified. An outline of the fundamental concept usually identified with PPC is given below.

1. A management process that includes that includes planning, organization, staffing, leading and controlling.

2. A managerial commitment to effective management participation by all levels in the entity.
3. An organization structure that clearly specifies assignment of management authority and responsibility at all organization levels.
4. A management planning process.
5. A management control process.
6. A continuous and consistent coordination of all the management functions.
7. Continuous feed forward, feedback, follow-up, and re-planning through defined communication channels (both down-ward and upward).
8. A strategic (long-range) profit plan.
9. A tactical (short-range) profit plan.
10. A responsibility accounting system.
11. A continuous use of the exception principles.
12. A behavioural management program.

(Welsch, 2009: 459)

2.2.1 Managerial Involvement and Commitment

Managerial support, confidence, participation and performance orientation includes managerial involvement. All level of management specially top level management should engage itself to comprehensive profit planning and control. Involvement in profit planning and control means to understand, to select, to devote ourselves, to support by all its department and to evaluate the performance of the profit planning and control of profit planning and control the direction should flow it in total.

Managerial involvement on comprehensive profit planning and control, program is directly related to the confidence of management and its known ability to influence the future program convincement with the idea of setting goal in advance. Managerial involvement also deals with idea of direct participation of the lower staff on the program. But one should not forget the fact that the idea of "Project owns self" should be totally controlled.

2.2.2 Organizational Adaptation

A success of profit planning and control program rest upon the sound organizational structure and also on clear-cut designation of the authority and responsibilities of all departments of an enterprise. The responsibility of each departmental management should be well clarified. Some time indirect relationship of responsibility also plays a great role in organization. So it is advisable to clarify well coordinate all round responsibility and authority of an between the department.

For easy and effective control some time the organizational structure are divided in to different functional sub units and each sub unit chiefs are assigned with specific responsibilities. These sub-units are known as decision centre or responsibility centre. Some time these responsibility centers are use to be in form of a division or department or a sales district. But in most of the cases these centers are use to be a functional are like.

1. Cost centre: Which is only responsible for controllable costs incurred in the sub units but not responsible for profit or investment.

2. Profit centre: Which is the responsibility centre for cost and revenue and hence profit and
3. investment centre : which is responsible for cost revenue, profit and amount of investment invested on assets

2.2.3 Responsibility Accounting

Planning is done with the help of the historical data supplied by accounting section and control is done by comparing actual data with projected data. So for this reason accounting system of any enterprises should be build around the responsibility structure of organization or around functional sub-units. This is called responsibility accounting. For responsibility accounting system one should have to define responsibilities of the various divisions then the relevant parameters of the cost, revenue and other financial data should be utilized for preparing plan.

If the parameter of cost and revenue used for planning purpose are not used in accounting system are not used for costing purpose. Valuation of the result by comparing it with planned goal will not be effective. So for evaluation purpose and for accounting purpose each of the responsibility centre have to prepare chart accounting parameter to be used for planning purpose and have to supply it with full instruction to respective unit then only the main objective of responsibility accounting can be fulfilled.

2.2.4 Full Communication

Communication can be defined as "an interchange of thought or information to bring about a mutual understanding between two or more parties. Communication is needs for both feed forward and feed back process, which are most important for operation of any organization. Role of communication can be justified in all aspect of management. It is communication either for decision-making or for supervision or for evaluation flow of information must be adequate in all sides.

For comprehensive PPC effective communication means development of well defined objective, specification of goals, development of profit plans and reporting and follows up activities related to performance evaluation for each responsibility centre. To have effective communication for PPC both the parties related with planning activities must have some understanding, responsibilities and goals. Full participation in all matter, well defined down ward flow of information and well-defined reporting system is needed.

2.2.5 Realistic Expectation

PPC must be based upon realist approach or estimation management must use realistic assumption and must not take either irrational optimism or unnecessary conservatism. Perfection on setting goal or objectives of the future sales, production levels, cost, capital expenditure, and cash flow and so on determines the success of profit planning and control program. So for Profit planning and control purpose, a realistic approach reared with the time diminution and external, internal environment that will prevail during the time span should be considered. This is called realistic expectation.

For budgeting purpose also realistic expectation is needed, because of both over or under estimation of the budget in one unit use to have negative effect on the other units, which ultimately destroy whole planning of the enterprise.

2.3 Planning Vs Forecasting

Forecasts are indispensable in planning. Forecasts are statement of expected future conditions; definite statements of what will happen are patently impossible. Expectations depend upon the assumptions made. If the assumptions are plan sable the forecast has a better chance of being useful. Fore casting assumptions and techniques very with the king for planning needed.

Forecasting is the prerequisite for planning. Its system must establish mutual relationship among forecasts made by different management areas. There is a high degree of inter-dependence among the forecasts of various divisions or departments, which cannot be ignored if forecasting is to be successful. For example error in sales projections can trigger a series of reactions affecting budget forecasts, operating expenses, cash flows, inventory levels, pricing etc. Similarly; budgeting errors in projecting the amount of money available to each division will affect project, development, and modernization of equipment, hiring of personnel and advertising expenditures. This, in turn, will influence if not determine the level of sales, operating costs and cash flows. Clearly there is a strong inter-dependence among the different forecasting areas in organization. (Pandey, 2011: 247)

The distinction between forecasting and planning is not an easy one. Forecasting is our best thinking about what will happen to us in future. In forecasting we define situations and recognize problems and opportunities. In planning we develop our objectives in practical detail and we correspondingly develop schemes of action to achieve these objectives. (William, 2009: 502)

A forecasting is a prediction of future events, condition or situation where as plan includes a programme of intended future actions and desired results, forecasting predict the future events in such a way that the planning process can be performed more accurately." A forecast is not a plan; rather it is a statement or a qualified assessment of future conditions about a particular subject (e.g. Sales revenue based) based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input into the development of a sales plan. The management of a company may accept, modify or reject the forecast. On contrast, a sales plan incorporate management decision that are based on forecast, other inputs and management judgments about such related items as sales volume, price, sales efforts production and financing. Another reason for identifying sales forecasting as only one step in sales planning is that sales forecasts are conditional.

Forecasting, may be three types, they are as follows:

2.3.1 Sort-term Planning

Short-term planning is that plan which covers one year's time period. The management as a substantial part of long range and short-range plan uses it.

The short-term plan is synonymous with the classical budgetary period of one year. The short range planning is made after a freeze is taken on the consideration of possible alternative course of action. Such courses are outline for the medium range plan, which doesn't concern implementation; its aim is weeding out a plethora of possibilities, which are for the most part long on promised and short on feasible results.

The short-term forecasting is a prediction extending a maximum of two years into the future while it is difficult to desire examples that fit every situation some generalization can be made to indicate the application of short term forecasting. A business firm can adjust more smoothly to an indicated higher or lower volume of sales if plans can be set out reasonably well in advance. The short term forecast of general business conditions often important in deriving a short-term sale forecast is useful in making internal estimated of company operations. Internal estimates of forecasting made by the accounting department in the large enterprises can be integrated with up to date predictions of short-term course of general business. Projections covering inventory positions manufacturing expanses, selling and administrative expenses, grass margin, net earnings and the cash position of the enterprise then reflect the most comprehensive internal and external data. Sales forecasting adds in more effective scheduling of goods in process and inventory requirements. Here, short term forecasting provides might more rationally ordered information and sounder base for decision-making.

2.3.2 Medium Term Planning

The intermediate rage forecasting covers from there to five years. This is one of the least development areas of prediction. Because forecast does not have a advantage of surveys of consumer and business intention nor can be extra plate long-term trends, nor he is a particularly good position to rank the importance of qualitative factors. The surveys of business and consumer spending intentions are of vital assistance in the development of short run predictions. Similarly, the extrapolation of long-term historical trends, if subjected to adequate qualitative analysis, can serve as a basis for estimating economic factors ten to twenty years in future. While the quantitative materials that can be employed in intermediate range forecasting are limited, an appraisal of the three to give year out look may be especially valuable in formulating capital expenditure program and related financial plan for research and product development. The forecaster is forced to rely very heavily upon his judgment. He must isolate from the mass of material facing him these elements in the situation that have most significance in shaping the course of economic events in the half decade lying ahead and this may be difficult indeed. In particular, intermediate forecast must consider the problems of cyclical fluctuation if they are to be meaningful.

Two to three years generally not exceed this period. Medium range planning usually includes a time span of above three years. One valuable purpose for using, it is to establish interim objectives between long-term goals and for use in the development of annual program and budgets. In these case target with specific results and defective time schedules must be developed more details is involved than long range plans but less than for short range plan. While resource allocation is important final approval will only be required for the short range and a consideration of alternatives is still possible.

2.3.3 Long Term Planning

Long range planning five to ten years varying with the enterprise, sometimes extended to ten years. Long range planning is one of the most difficult time span involved in planning as many problems in shot range planning can be traced to the absence of clear sense of direction and the practices which comprehensive long range plan provides.

The purpose of long-range projection is to give a rough picture of future prospects; a picture that has some empirical foundation sought is reasonable statement of the most probable outcome of an explicit combination of assumptions. Some time these assumptions are varied to yield a range of possible results.

2.4 Importance and Limitation of Profit Planning

2.4.1 Importance

Importance of Profit Planning is as follows:

i. It forces early consideration of basic policies.

ii. It requires adequate and sound organization structure that is, there must be definite assignment of responsibility for each function of the enterprise.

iii. It compels all the members of management, from the top to down, to participate in the establishment of goals and plans.

iv. It compels departmental managers to make plans on harmony with the plans of other departments and the entire enterprise.

v. It requires that management put down in the figures what is necessary for satisfactory performance.

vi. It requires adequate and appropriate historical accounting data.

vii. It compels management to plan for the most economical use of the labour, material, and capital.

viii. It instills at all level of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.

ix. It reduces cost by increasing the span of control because fewer supervisors are needed.

x. It frees executives from many days to day's internal problems through predetermined policies and clear-cut authority relationship. Thus, it provides more executive time for planning and creative thinking.

xi. It tends to remove the cloud of uncertainty that exits in many organizations, especially among lower levels of management, relative to basic policies and enterprise objective.

xii. It pin points efficiency and inefficiency.

xiii. It promotes understanding among members of management of their co-workers problems.

xiv. It forces management to give adequate attention to the effect of general business conditions.

xv. If forces a periodic self-analysis of company.

xvi. It aids in obtaining bank credit, banks commonly require a projection of future operations and cash flows to support large loans.

xvii. It checks progress or lack of progress towards the objectives of the enterprise.

xviii. It forces recognition and corrective active action (including rewards).

xix. It rewards high performance and seeks to correct unfavourable performance.

xx. It forces management to consider expected future trends and conditions.

(Pandey, 2011: 77)

2.4.2 Limitation

Following are the main limitation of profit planning.

i. It is not realistic to write out and distribute our goals, polices and guidelines to all the supervisors.

ii. It is difficult, if not possible, to estimate revenues and expenses in our company realistically.

iii. Our management has not interested in all the estimate and schedules. Our strictly informal system is better and works well.

iv. Budgeting places too great a demand on management time, especially to revise budget constantly. Too much paper work is required.
v. It takes away management flexibility.
vi. It creates all kinds of behavioural problems.
vii. It places the management in a straitjacket.
viii. It adds level of complexity that is not needed.
ix. It is too, costly abide from management time.
x. The managers, supervisors and other employee's rate budget.

(Pandey, 2011: 79)

2.5 Review of Articles

Profit planning efficiency is defined as outcomes of profit planning leading to make clear operation, understand evaluating of job accomplishment systematically and correct direction for investment. Hence, profit planning is used to create organizations goal congruence, support creativity and change circumstances, internal processes, innovation and determine the success or failure of an organization (Hynes, 2008).

Planning effectiveness is defined as the ability in using way the communication appropriate to the situation and time. Hakansson and Lind suggest that organizational employees exchange information through a variety of planning. Planning effectiveness is important to the efficient implementation of profit planning in goals achievement and firm success (Hakansson & Lind, 2012)

Operational controlling competency can be defined as the systematic process of regulating organizational activities to make them consistent or successful with the expectations established in plans, targets, and standards of performance. Also, performance assessment is an essential control mechanism that assists in improving the success of different management practices (Evans, 2009). Moreover, feedback theories from psychology argue that performance information can improve psychological empowerment by providing information about task behavior and performance. Accounting-based profit planning controls are an integral part of the management control systems in organizations (Armstrong and Overton, 2012).

Then, profit planning efficiency positively relates to goal achievement and firm success, the findings indicate that resource allocation efficiency is not related to goal achievement and firm success. Because, the resource allocation efficiency of profit planning efficiency are related to implementation internal and external monitoring, Hence differences between countries and the sample-wide performance effects were restricted to controls concerning manager's participation. The effect will link to the other associations' contingent of industry effect (Larcker, 2013).

2.6 Review of Unpublished Thesis

The review of literature is a curial aspect of the planning of the study. The much purpose of the literature review is to find out what works have been done in the area of research, problem under the study and what works have been done in the field of the research study being under taken.

Paudel (2009) has conducted a study on "Sales budget of profit planning and control in manufacturing public enterprises: A case study of Dairy Development Corporation". In this study main objectives are as follows:

a. To analyzed the sales budget prepared by DDC.

b. To evaluate the variance between budgeted and actual achievement of DDC
c. To compare the sales with profit of the DDC.
d. To provide the suitable suggestion and recommendations for the improvement of planning system of DDC.

Some Major Findings:

i. DDC has fulfilled the national demand but sales achievement is below than targeted sales.
ii. DDC is following traditional budgeting approach.
iii. DDC has burden of staff, loan and other expenses which directly influenced the profitability.
iv. Different statistical tools show the positive relationship with actual and budgeted sales.
v. DDC is adopted traditional pricing method to determine the selling price.

Dahal (2010) is conducted a research entitled" Planning process and its impact on profitability " A Case Study of Gorkha Patra Corporation" his objectives and some of major findings are listed below.

Objectives:

i. To examine the present practice and effectiveness of profit planning in Gorkhapatra corporation.
ii. To evaluate the variance between target and actual performance of this corporation
iii. To analyze the preparation of various functional budget of Gorkhapatra corporation.
iv. To point out the suggestion and recommendation for improving the profit plan.

Some Major Findings:

i. GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.
ii. GC has not adequately considered controllable and non-controllable variables affecting the corporation. They has no in depth analysis of the corporation's strength and weakness.
iii. The objectives of the corporation are not clear, with regard to profit making and market penetration.
iv. The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.
v. GC has not a system of periodical performance reports. Corporation is not seriously conscious to it poor performance.
vi. Actual production is made in accordance with the actual sales. Therefore production activities are not done according to the budgeted production but this done according to the recent data of actual sales.

Thapa (2011) has study on "Profit Planning in Merchandising company: A case study of National Trading Limited" his objectives and major findings are as follows:

Objectives:

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

Some of Major Findings:

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

Kharel (2012) 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:

i. To find out the relationship between total investment, loan and advances, deposit , net profit and outside assets.
ii. To identify the investment priority sectors of Commercial Banks.
iii. To assess the impact of investment on profitability.
iv. To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial banks.

Some of major Findings:

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

ii. In spite of the current ratio is average among the other two banks EBL has
iii. Maintained the cash and bank balance to meet the customers demand.
iv. EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
v. 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.
vi. EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
vii. Due to more efficient loan policy, Nabil suffers less from loan loss provision.
viii. BOK has higher investment on shares and debentures to total working fund ratio.
ix. The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.
x. The return on loan and advances ratio and return on assets of EBL is lowest of all.
xi. The ratio suggests that the earning capacity of the bank's loan and advances is satisfactory.
xii. 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.
xiii. 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.

xiv. 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.

xv. 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.

Tharu (2013) has conducted a research on the topic "Profit planning and control, a case study of Nepal Telecom". This study has tired to present the effectiveness of profit planning system of Nepal Telecom. Data were taken from primary or secondary sources. Study was focused on secondary data. The main objective the study was to examine the effectiveness profit planning system in the NTC and other objectives are as follows.

i. To highlight the NT in different aspects.

ii. To analyze, examine & interpret the financial position of NT.

iii. To analyze various functional budgets adopted in NT.

iv. To suggest the suitable suggestion or recommendation for improving performance.

He has pointed out various finds and recommendation a few of than are as follows.

i. NT sales achievement meets approximately the sales target in every year. This shows that NT is planning proper sales budget.

ii. The management of NT is not success to utilization of their current assets properly since it has more than 4 times than its current liabilities.

iii. Capital expenditure budget is not prepare or realistic basic. All capital expenditure is below than budgeted except heating and lighting capital expenditure.

Saud (2013) has been conducted in the research on "Profit planning of Machhapuchhre Bank Limited". The basic objective of the study is to highlight the current practices of profit plan and its effectiveness in MBL and other specific objectives are as follows.

i. To examine the present profit planning premises adopted by MBL on the basis of budgeting.

ii. To analyse the variance of budgeted and actual achievement.

iii. To sketch the trend of profit and loss.

iv. To analyse the various functional budgets and financial plans formulate and implemented in Machhapuchhre Bank Limited.

Major Finding are as follows:

i. Machhapuchhre Bank Ltd lacks active and organized planning department of undertake innovative products research, lunch and development work.

ii. Advance training to the personnel is lacking to provided best service and to survive for a long term in highly competitive market.

iii. There is lack of systematic profit planning and controlling system.

Wagle (2014) the topic of "A case study of Profit Planning and Control in Nepal Food Corporation". The specific objectives were as follows.

i. To analyze the financial condition of NFC in the study period.

ii. To explorer the trend of profit and loss of Nepal Food Corporation.

iii. To analyse the various budgets and financial plans of Nepal Food Corporation.

This study has pointed out the following major findings were as follows:

i. Nepal Food Corporation is financially very weak and its financial condition is becoming more and more unmanageable.

ii. Nepal Food Corporation doesn't have any long range and medium range forecasts, forecasting mechanism of past experiences and personal judgment of the managers.

iii. Regular financial appraisal is absent. No financial efficiency indicator has been identified.

iv. Though the enterprise has planning division but it has no skilled and expert planner as well as budgeting experts. Budgets are prepared on traditional basis.

v. Poor planning and forecasting of expenses budget leads higher allocation of administrative expenses.

vi. Staff promotion process has been closed and old staffs are not ready to go to hilly area because of the age and security problem.

vii. The operating position of Nepal Food Corporation is not good. The major cause of lower or negative profit is because of high fixed cost i.e. administration costs and cost of sales.

2.7 Research Gap

The main purpose of the research is to analyze, examine and interpret the budgeting techniques. Not only that objective of the research but also to suggest and give good path for the research field. Every researcher thinks about only new thing but without the study of profit plan we cannot do anything to organization. So researcher want to study in the field of profit plan and researcher have to use another same mathematical tool in this way for solve the problems. In the study researcher also submit the study and data of branches of the organization. In this study used latest data from FY 2009/10 to FY 2013/14 and take some statistical and financial tools. And this study helps to every profitable field not only profit planning field of the organization.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology covers the wide range of investigation. This study has intense relation with the application of profit planning in commercial banks with reference to BOK and LBL. The research methodology is followed to achieve the basic objectives and goals of this research work. This section deals with the research design, sources of data, data processing procedure, period covered and research variables.

3.1 Research Design

Research design provides the framework for the study, guidelines for the collection and analysis of data. It can be compared with the blue map of a house. The basic elements of a research design are: problem, the methodology, data collection, data analysis and report writing. Research design is an analytical as well as descriptive approach to achieve the objective. Thus, research design is a plan to obtain the answer of research question through analysis of data. This study used on descriptive and analytical research design. It is a process of collecting, evaluating and verifying past evidence. A present status of a phenomenon is the cumulative effect of past.

3.2 Population and Sample

There are 30 commercial banks operating in Nepal in January 2015. In this study two commercial banks namely Bank of Kathmandu Limited and Laxmi Bank Limited have been taken for sample on the topic profit planning of this commercial bank. Simple random sampling methods have been used of this study.

3.2.1 Bank of Kathmandu Limited

Bank of Kathmandu Limited (BOKL) has become a permanent name in the Nepalese banking sector BOKL has today become a land mark in the Nepalese banking sector, by being a few commercial banks which is entirely managed by Nepalese professionals and owned by the general public. BOKL started it's operation in march 1995 with the objective to stimulate the Nepalese economy and take it to newer heights to facilitate the nation's economy and to become more competitive globally having head office in Kamaladi, Kathmandu.

BOKL has the most sophisticated banking software enabling in to provide modern banking, point of sale, services, SMS banking, ATM facilities, LC services and many more. BOKL has an authorized capital 2 billion rupees out of which 1,182,157,100 million rupees have been paid up capital. The ownership share structure is derived as promoter's shares 41.81% and general public share 58.19%.

3.2.2 Laxmi Bank Limited

Laxmi Bank was incorporated in April 2002 as the 16^{th} commercial bank in Nepal. In 2004 Laxmi Bank merged with HISEF Finance Limited, a first generation financial company which was the first and ever merger in the Nepali corporate history. Laxmi Bank is a Category ‘A’ Financial Institution and re-registered in 2006 under the “Banks and Financial Institutions Act” of Nepal. The Bank’s shares are listed and actively traded in the Nepal Stock Exchange (NEPSE). LBL is a technologically driven progressive Bank with strong risk and corporate governance foundations. LBL known for innovation and claim to many “firsts” in the Nepalese financial market. We have the best asset quality among all financial institutions in the country and our technology has been rated

“Highly Secure” by an independent internationally accredited information system auditors. Laxmi Bank’s award winning annual reports has set the standards for quality, presentation and disclosure for the Nepalese corporate sector.

3.3 Sources of Data

The data presented in the study are secondary type. The annual report of the concerned bank is the major sources of the data for the study. However, besides the annual reports of the subjected banks the following source of data shall also be used in the respective corner of the study.

1. NRB reports
2. Various publications dealing in the subject matter of the study
3. Various articles published in the News papers

Besides the above, any kind of other sources such as assertions, interviews, remarked by the specialist of those are capable improvising valuable data and conclusion, shall be considered in the study.

3.4 Data Collection Procedure:

Beside the above stated sources of data, a detailed review of literature has been conducted for the purpose of collecting other relevant data and information. Such data and information are mainly collected from Centre Library and internet. Such data, information, facts and figures have been edited, tabulated and calculated before analysis. Then only, results are concludes and interpretation are made.

3.5 Data Processing and Analysis

The collected data obtained from secondary sources are not in desirable structure to analysis rather than the collected from the primary sources. The data were described by presenting in the line of theoretical basis with using different tools and technique of financial analysis. Similarly, the collected data are presented and arranged in tabular forms, percentage, ratio, statistical tools and accounting tools.

3.6 Tools Used

Data collected from various sources are managed, analysis and presented in proper as well as systematic tables and formats. Such table and formats are explained and interpreted as necessary. The analysis of data is done with the help of financial and statistical tools.

3.6.1 Financial Tools

Keeping in mind to fulfill the objectives of the present study, some selected financial tools are applied to analysis the relevant data. Ratio is the one of the most common and main indicator to evaluate financial performance. Thus the following ratio is used to evaluate financial performance.

1. Working Capital and Liquidity Ratio

Working capital is the portion of an organization total capital, which is employed in short term operation that is current assets less current liabilities. Liquidity refers to the ability of a firm to meet its short-term or current obligations as and when they fall due for payment. So liquidity ratios are used to measure the ability of a firm to meet its short-term obligations and from them the present cash solvency as well as ability to remain solvent in the event of adversities of the same can be examined (Van Horne, 2009).

A. Working Capital and Current Ratio

Working capital calculated by difference to current assets and current liabilities and current ratio shows the relationship between current assets and current liabilities. It indicates the banks short term solvency. It is calculated dividing the current assets by current liabilities. Thus;

$$WC = CA - CL \qquad \& \qquad Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Current assets are those assets, which are cash or can be converted into cash within a year. It includes cash and bank balance, money at call or short notice, loan and advances, investment in government securities, bills purchased and discounted etc. Similarly current liabilities are those obligation, which are payable within a year. It includes deposit, short term loan and borrowing, bills payable, provision for tax and staff bonus, and dividend payable etc.

2. Leverage Ratio

The use of finance is refers by financial leverage. When a firm borrows money, it promises to make series of fixed payments, which creates financial leverage. These ratios are also called solvency ratios or capital structure ratio. These ratios indicate mix of funds provided by owners and lenders. As a general rule, there should be an appropriate mix of debt and owner's equity in financing the firm's assets. To judge the long-term financial position of the firm leverage ratios are calculated. This ratio highlights the long-term financial position of the firm leverage ratios are calculated. This ratio highlights the long term financial health, debt servicing capacity and strength and weaknesses of the firm. Following ratios are included under leverage ratios:

A. Total Debt to Net-Worth Ratio

This ratio is calculated to find out the proportion of the outsider's fund and owner's fund to finance for the total assets. It is also called proportion of outsider's claim and insider's claim on total assets of the bank. Generally, very high ratio is unfavorable to the business because the debt gives third partied legal claims on the company, these claims are for interest payment at regular intervals, plus repayment of the principal by the agreed time. On the other hand, very low ratio is also unfavorable from the shareholder’s point of view. They want this ratio to be high so that they can have better returns with smaller capital. It is calculated as follows:

$$\text{Total Debt to Net-worth Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

B. Total Debt to Total Assets Ratio

It examines the relationship between borrowed funds (i.e. total debt) and total assets. It shows the relative extent to which the firm is using borrowed money. A lower ratio is preferable since it reduces the distress of the creditors by using more amount of equity on total assets. It is computed as:

$$\text{Total Debt to Total Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

C. Total Assets to Net worth Ratio

It shows the portion of total assets occupied by the net worth. In other word, total contribution of the shareholder's equity to total assets. It is computed as:

$$\text{Total Assets to Net worth Ratio} = \frac{\text{Total Assets}}{\text{Net Worth}}$$

3. Activity/Efficiency Ratio

Activity ratios are concerned with the measuring of efficiency in assets management. This ratio is employed to evaluate the efficiency of the bank management and utilizations of their available resources. These ratios are also called turnover ratio. They indicate the assets management which are being commented or turnover into incomes. The following ratios are calculated under the activity ratio.

A. Loan and Advances to Total Deposit Ratio

This ratio indicates which banks are successful to mobilize the outsider's funs. It is calculated to see percentage of total deposit invested in loan and advancers. The ratio is calculated by using the following formula;

$$\textit{Loan and Advances to Total Deposit Ratio} = \frac{\textit{Loan and Advance}}{\textit{Total Deposit}}$$

Greater the ratio implies the better utilization of outsider's fund (Total Deposit). A high ratio of loan and advances is considered to be the sign of efficient bank and better mobilization of collected funds and vice-versa.

B. Loan and Advances to Fixed Deposit Ratio

Fixed deposits are the long-term interest bearing obligations and loan and advances are the major sources or investment to generate the income by the commercial banks. This ratio measures how many times the amount is used in credits and advances in comparison to fixed deposit for the income generating purpose. The ratio is slightly differ with the former one, because it only includes the fixed deposits, where as the former on includes all the deposits. The following formula is used to obtain this ratio:

$$\textit{Loan and Advances to Fixed Deposit Ratio} = \frac{\textit{Loan and Advance}}{\textit{Fixed Deposit}}$$

Here, the denominator includes all assets of balance sheets items. In other words, this includes current assets, net fixed assets, other investment in share, debenture, bond etc. A high ratio indicates a better mobilization of fund as loan and advances and vice-versa.

C. Total Investment to Total Deposit Ratio

This ratio is calculated to see how efficiently the banks have mobilized the deposits on investment. This ratio is calculated by using the formula;

$$Total\ Investment\ to\ Total\ Deposit\ Ratio = \frac{Total\ Investment}{Total\ Deposit}$$

The numerator consists of investment on government securities, investment on debenture and bonds, shares of others. A high ratio indicates that the bank's efficiency is more investing on its deposits and low ratio indicates in ability to put its deposit for the lending activities.

4. Profitability Ratio

Profitability ratios indicate the degree of success in achieving desired profit. This ratio measures how efficiently the company manages its fund to earn profit. This ratio is regarded as the most essential element for the banks growth and survival. The different between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarded as the most essential element for commercial bank growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company to be able to acquire funds from investors for expansion and to contribute towards the goals of the nation. This implies that profit is the measuring rod of companies for the financial performance. Higher the profitability ratio betters the financial performance of the bank and vice-versa. Profitability position can be evaluated through following different way. For the study purpose, the following profitability ratios have been calculated.

a) Net Profit to Total Assets Ratio

This ratio measures the profitability with respect to the total assets. It reflects the efficiency of the banks on utilizing its overall resources. This is found by using the following formula:

$$Net\ Profit\ to\ Total\ Assets = \frac{Net\ Profit}{Total\ Assets} \times 100$$

The numerator indicates the position of income left to the interval equities after all coasts, charges, expenses have been deducted. Total assets comprise those assets, which appear on the assets side of the balance sheet. The high return on total assets ratio usually indicates that high profit margin and high turnover assets and vice-versa.

b) Total Interest Expenses to Total Interest Income Ratio

This ratio measures the percentage of total interest expenses against total interest income. It is calculated by the formula;

$$\text{Total Interest Expenses to Total Interest Income Ratio} = \frac{\text{Total Interest Expenses}}{\text{Total Intrest Income}} \times 100$$

The numerator consists of total interest expenses on total deposits, borrowing and other deposits, while denominator consist the total interest income from all loan and advances. A high ratio indicates high interest expenses on total interest income.

c) Net Profit to Total Deposits (Return on Total Deposits)

This ratio enables to evaluate what extent the management has been successful to mobilize the deposits in generating profit. Higher ratio represents better utilization of deposit. It is calculated by the formula;

$$\text{Net Profit to Total Deposit Ratio} = \frac{\text{Net Profit}}{\text{Total Deposit}} \times 100$$

Here net profit means profit after interest and taxes and total deposits means those total amount deposited in various accounts i.e. current, saving, fixed, call and short term deposits and others. Generally, higher ratio indicates better utilization of total deposits and vice-versa.

d) Return on Net Worth Ratio

This ratio shows the capacity of the bank to utilize its owner’s fund. It helps to judge whether the company has earned satisfactory return for its shareholder or not. Higher ratio represents the sound management and efficient mobilization of owner equity. It is calculated by the formula;

$$Return\ on\ Net\ Worth = \frac{Net\ Profit}{Net\ Worth} \times 100$$

Here, net worth focuses not only the paid up capital but also include general reserves, capital reserves, ordinary share, preference share, premium on share and other surplus and reserve which may distribute among shareholders as dividend.

e) Interest Earned to Total Assets Ratio

This ratio shows the percentage of interest earned in relation to total assets of the bank. It signifies the mobilization of the bank assets in interest generating purpose.

Higher ratio signifies better efficiency in utilizing the resource in interest generating sector. It is calculated by using following formula;

$$Interest\ Earned\ to\ Total\ Assets\ Ratio = \frac{Total\ Intrest\ Income}{Total\ Assets} \times 100$$

The numerator comprises total interest income from loans and advances, cash credit and overdrafts, government securities, inter bank and other investment. A high ratio is an indicator of high earning power, better performance of the banks on its total working fund and vice-versa.

3.6.2 Statistical Tools

The relationship between different variables related to study topic would be drawn out using statistical tools. The tools to be used are as follows,

I. Arithmetic Mean ($\bar{X}$):

Average is statistical constants, which enable us to comprehend in a single effort of the whole. It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\overline{X} = \frac{\sum X}{N}$$

Where,

$\overline{X}$	=	Arithmetic Mean
N	=	Numbers of observation
∑x	=	Sum of observation

II. Standard Deviation (S.D.)

The standard deviation is the square root of mean squared deviations from the arithmetic mean and is denoted by S.D. It is used as absolute measure of dispersion or variability. It is calculated as:

$$\sigma = \sqrt{\frac{\sum(X - \overline{X})^2}{N-1}}$$

Where,

σ = Standard Deviation

III. Coefficient of Variation (C.V.)

The co-efficient of variation (C.V.) is the relative measure based on the standard deviation and is defined as the ratio of the standard deviation to the mean expressed in percentage it is independent of units. Hence, it is a suitable measure for comparing variability of two series with same or different units. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the other and vice versa. It is calculated as:

$$C.V = \frac{\sigma}{\overline{X}} \times 100$$

Where,

σ = Standard deviation

$\overline{X}$ = Mean

IV. Correlation Coefficient (r)

Correlation Coefficient is the important tool to analyze the degree of relationship between two or more variables. It is used t describe the degree to which one variable in the linearly related to other variables. It refers the closeness of the relationship between two or more variable. In other words, it is an analysis of covariance between two or more variables.

It is the statistical measure of the relationship. If any, between series of numbers representing data of any kind, from returns to test scores. If two series move in opposite direction, they are positively correlated; if the series move in opposite direction, they are negatively correlated.

The degree of correlation is measured by the correlation coefficient, which ranges from +1 for perfectly correlated series to -1 for perfectly negatively correlated series. Symbolically, correlation coefficient can be expressed as follows:

Correlation Coefficient (Simply, r) = $\dfrac{n\sum xy - \sum x \sum y}{\sqrt{\left[\left\{n\sum x^2 - \left(\sum x\right)^2\right\}\left\{n\sum y^2 - \left(\sum y\right)^2\right\}\right]}}$

Correlation analysis describes the relationship between variables i.e. positive or negative. It helps to determine the following.

i. A positive or negative relationship exists.

ii. The relationship is significant or insignificant.

iii. Establish cause and effect relation if any.

The statistical tool-correlation analysis is used in the study to measure the relationship between variables in determining within the relationship is significant or not. For the purpose decision making interpretation are based on the following terms.

1. When, r = 1, then is perfect positive correlation.

2. When, r = -1, then is perfect negative correlation.

3. When, r = 0, then is no correlation.

4. When, ‘r’ lies between 0.7 to 0.999 (-0.7 to -0.999), then is high degree of positive (or negative) correlation.

5. When, ‘r’ lies between 0.5 to 0.6999 there is moderate degree of correlation.

6. When, ‘r’ is less than 0.5, there is low degree of correlation.

V. Probable Error (P.E.)

The probable error of the Coefficient of correlation helps in interpreting its value. With the help of probable error, it is possible to determine the reliability of the value of the coefficient in so far as it depends on the conditions of random sampling. The probable error of the coefficient of correlation is obtained as follows:

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where,

r = Correlation coefficient

N = Number of pairs of observations

If the value of ‘r’ is less than the probable error, there is no evidence of correlation, i.e., the value of ‘r’ is not at all significant. Then, if the value of ‘r’ is more than six times of the probable error, the coefficient of correlation is practically certain, i.e. the value of ‘r’ is significant.

VI. Trend Analysis

Trend analysis or Time series analysis enables us to forecast the future behavior of the variables under study, changes in the values of different variables and past behavior of a variable. In the data related to time span, there are three components of time series like secular trend or long term fluctuation, short term or periodic variations and random or irregular fluctuation, in this study, time series of loan disbursement and collection are shown in the figures. The experts to deal with variants, which changes, in value with time are, used time series. Variations of such quantities are analyzed by presenting on the graphs.

$Y = a + bx$

The above trend equation can be calculated using following two normal equations:

$\sum Y = na + b\sum X$……………………… (i)

$\sum XY = a \sum X + b\sum X^2$……………........... (ii)

Where,

Y = Variable

X = Time span

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

This chapter is the heart of the study. It includes the analysis and interpretation of data as stated in research methodology. To find out the strength and weakness of the commercial banks in terms of their financial performance various ratio, variable statistical value have been calculated in this chapter. It is related to the quantity analysis of various financial and statistical tools to study & analyze the profit planning of the commercial banks on the basis of financial statement.

4.1 Deposit Collection Budgeted and Achievement of BOK & LBL

a) Deposit Collection Budgeted and Achievement of BOK

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

Table 4.1

Status of Budgeted and Actual Deposit Collection of BOK

(Rs. in Millions)

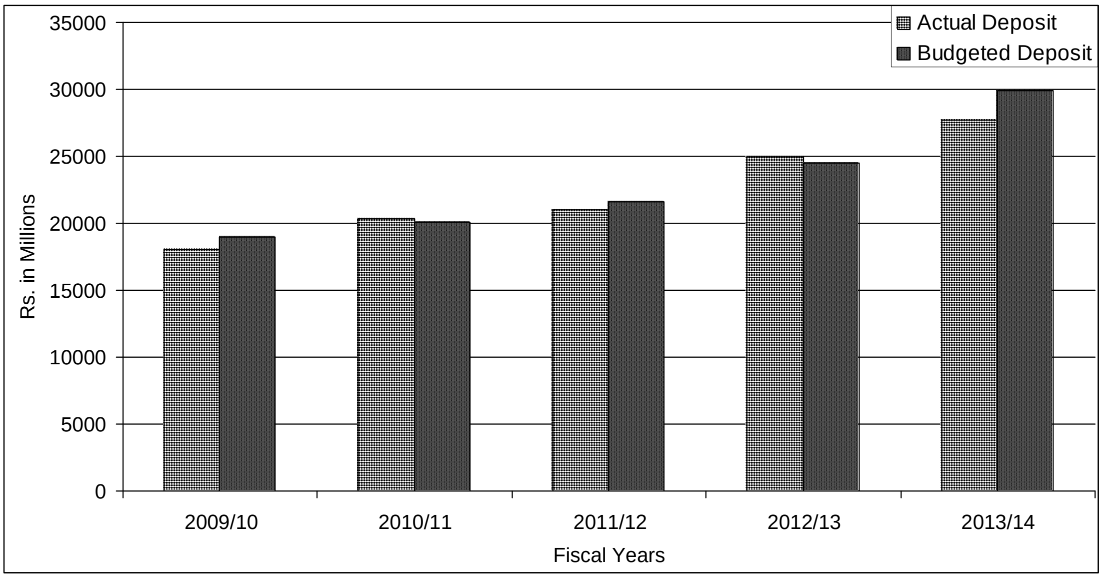
Fiscal Year	Actual Deposit		Budgeted Deposit		Achievement %
	Rs.	Change %	Rs.	Change %	
2009/10	18083.9	-	18988.1	-	95.24
2010/11	20315.8	12.34	20112.6	5.92	101.01
2011/12	21018.4	3.46	21649.0	7.64	97.09
2012/13	24991.4	18.90	24491.6	13.13	102.04
2013/14	27701.1	10.84	29917.2	22.15	92.59
Mean	**22422.1**		**23031.7**		**97.6**
SD	**3863.16**		**4368.20**		**3.95**
CV	**17.23**		**18.97**		**4.04**

Source: Annual Report of BOK from the FY 2009/10 to 2013/14

The above table shows the status of budgeted and actual deposit collection of BOK. The bank has achieved its objectives of deposit collection in FY 2010/11 and FY 2012/13. The base of preparing the budgets is the actual deposit collection the last year. Percentage change of actual deposit and budgeted deposit is also shown in the above table. The percentage change highly in the fiscal year 2012/13 of actual deposit i.e. 18.90 percent and highly change in the fiscal year 2013/14 of budgeted deposit i.e. 22.15 percent.

Figure 4.1

Budgeted and Actual Deposit Collection of BOK



Above figure shows the achievement range is slightly fluctuating. It ranged between 95.24 percent to 102.04 percent through the five year of study period. BOK deposit average achievement 97.6 percent, SD is 3.95 and CV is 4.04 percent.

b) Deposit Collection Budgeted and Achievement of LBL

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

Table 4.2

Status of Budgeted and Actual Deposit Collection of LBL

(Rs. in Millions)

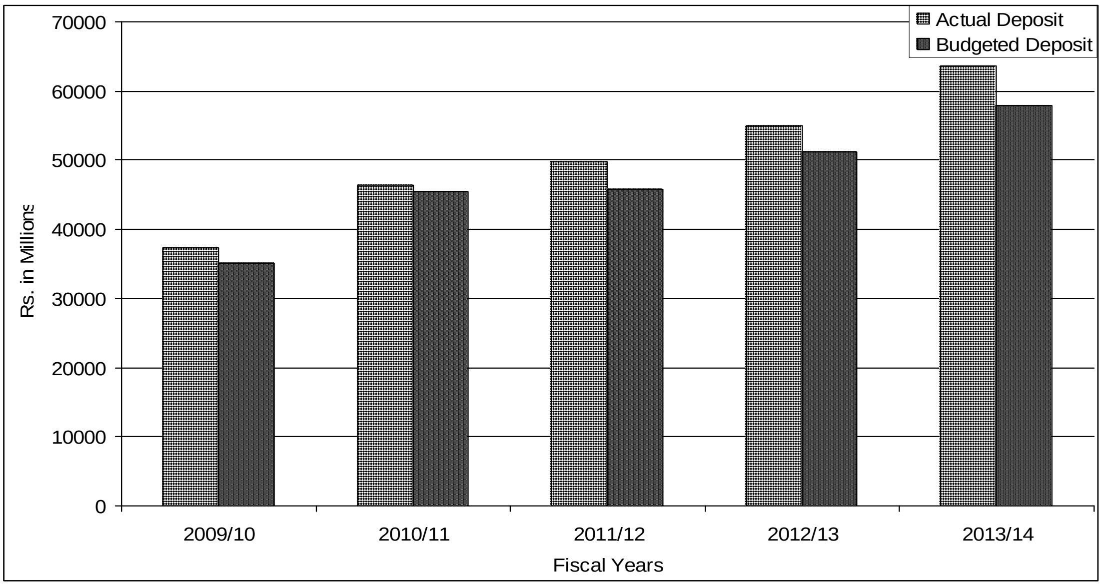
Fiscal Year	Actual Deposit		Budgeted Deposit		Achievement %
	Rs.	Change %	Rs.	Change %	
2009/10	37348.3	-	35107.4	-	106.38
2010/11	46334.8	24.06	45408.1	29.34	102.04
2011/12	49691.4	7.24	45716.1	0.68	108.70
2012/13	55023.7	10.73	51172.0	11.93	107.53
2013/14	63611.3	15.61	57886.3	13.12	109.89
Mean	**50401.9**		**47058.0**		**106.9**
SD	**9788.92**		**8389.23**		**3.02**
CV	**19.42**		**17.83**		**2.82**

Source: Annual Report of LBL from the FY 2009/10 to 2013/14

The above table shows the status of budgeted and actual deposit collection of LBL. The bank has achieved its objectives of deposit collection in every year. The base of preparing the budgets is the actual deposit collection the last year.

Figure 4.2

Budgeted and Actual Deposit Collection of LBL



Above figure shows the achievement range is slightly fluctuating. It ranged between 102.04 percent to 109.89 percent through the five year of study period. LBL deposit average achievement 106.9 percent, SD is 3.02 and CV is 2.82 percent. Percentage change of the actual deposit and budgeted deposit of LBL is also in the fluctuating trend. Percentage change highly in the fiscal year 2010/11 i.e. 24.06 percent of actual deposit and highly change in fiscal year 2010/11 i.e. 29.34 percent of budgeted deposit.

4.2 Lending Budgeted and Achievement of BOK & LBL

a) Lending Budgeted and Achievement of BOK

In the present study loan a advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currency. BOK prepares the plan for the lending. The budgeted and actual loan and advance of BOK has presented in table below:

Table 4.3

Status of Budgeted and Actual Loan & Advance of BOK

(Rs. in Millions)

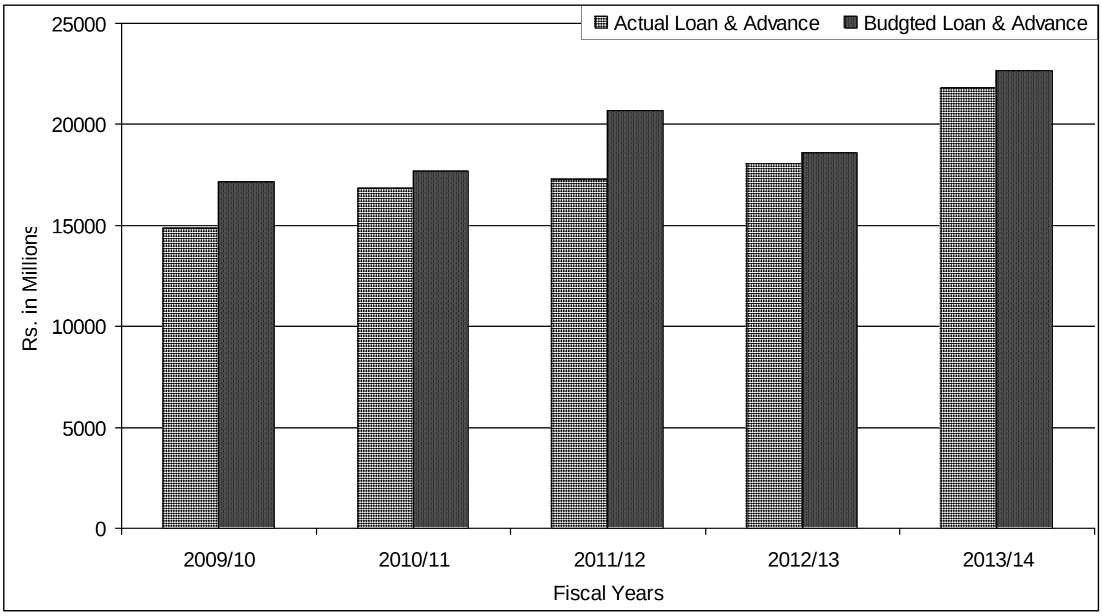
Fiscal Year	Actual Loan & Advance		Budgeted Loan & Advance		Achievement %
	Rs.	Change %	Rs.	Change %	
2009/10	14894.7	-	17128.9	-	86.96
2010/11	16847.1	13.11	17689.5	3.27	95.24
2011/12	17247.8	2.38	20697.4	17.00	83.33
2012/13	18064.1	4.73	18606.0	-10.10	97.09
2013/14	21805.7	20.71	22677.9	21.88	96.15
Mean	**17771.9**		**19359.9**		**91.8**
SD	**2537.97**		**2298.60**		**6.20**
CV	**14.28**		**11.87**		**6.76**

Source: Annual Report of BOK from the FY 2009/10 to 2013/14

Above table shows the high percent of percentage change of actual loan and advances is 20.71 in the year 2013/14 and high percent of percentage change of the budgeted loan and advances is 21.88 in the year 2013/14. The base of preparing the budgets is the actual lending. The achievement range is slightly fluctuating. It ranged between 83.33 percent to 97.09 percent through the five year of study period and its SD is 6.20 and CV is 6.76 percent.

Figure 4.3

Budgeted and Actual Loan & Advance of BOK



The above figure shows the status of budgeted and actual loan and advance of BOK. The bank has around 91.8 percent achieved its objectives of lending target. Percentage change of actual loan and advances and budgeted loan and advances of all year are appeared positive except the fiscal year 2011/12 of budgeted loan and advances.

b) Lending Budgeted and Achievement of LBL

In the present study loan a advances represent to local and foreign bills discounted and purchased and loans, cash credit and overdraft in local currency as well as in convertible foreign currency. LBL prepares the plan for the lending. The budgeted and actual loan and advance of LBL has presented in table below:

Table 4.4

Status of Budgeted and Actual Loan & Advance of LBL

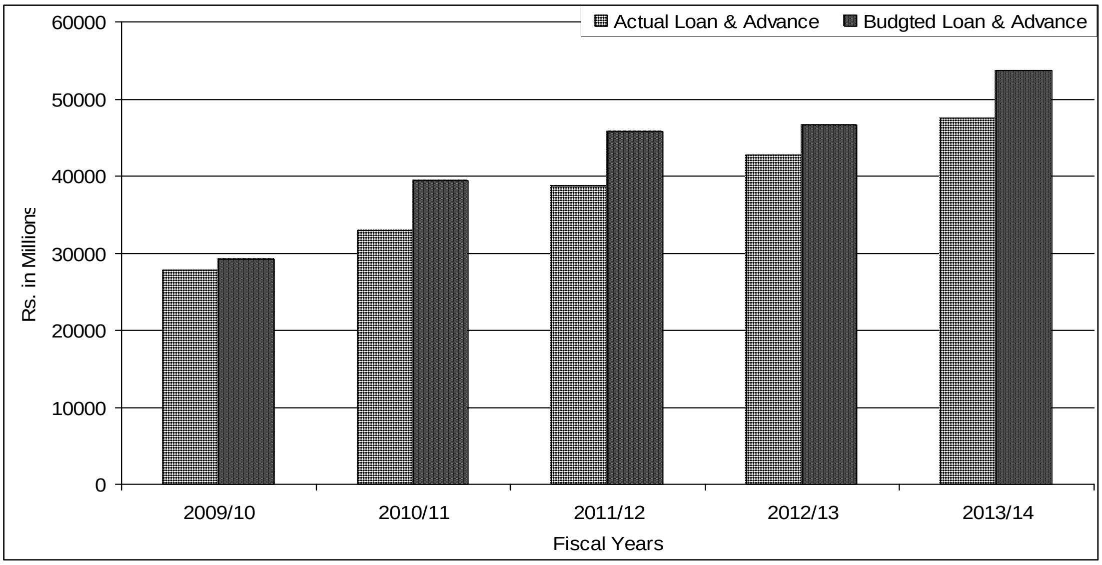
(Rs. in Millions)

Fiscal Year	Actual Loan & Advance		Budgeted Loan & Advance		Achievement %
	Rs.	Change %	Rs.	Change %	
2009/10	27816.6	-	29207.4	-	95.24
2010/11	32902.8	18.28	39483.4	35.18	83.33
2011/12	38765.6	17.82	45743.4	15.85	84.75
2012/13	42731.2	10.23	46577.0	1.82	91.74
2013/14	47522.9	11.21	53700.9	15.29	88.50
Mean	**37947.8**		**42942.4**		**88.7**
SD	**7799.45**		**9184.43**		**4.91**
CV	**20.55**		**21.39**		**5.54**

Source: Annual Report of LBL from the FY 2009/10 to 2013/14

The above table and below figure shows the status of budgeted and actual loan and advance of LBL. The bank has around 88.7 percent achieved its objectives of lending target. Percentage change of the actual loan and advances and budgeted loan and advances both are in fluctuating trend. Change percent of actual loan and advances high in the fiscal year 2010/11 and low in the year 2012/13. Likewise change percent of budgeted loan and advances high in the year 2010/11 and low in the year in 2012/13. It ranged between 83.33 percent to 95.24 percent through the five year of study period and its SD is 4.91 and CV is 5.54 percent.

Figure 4.4
Budgeted and Actual Loan & Advance of LBL



Above figure shows the base of preparing the budgets is the actual lending. The achievement range is slightly fluctuating.

4.3 Loan Disbursement and Deposit Collection

Now it is also necessary to analyze whether deposit meets to disbursement and it is significant to analyze the relationship between credit investment and deposit collection.

Table 4.5
Actual Loan Disbursement and Actual Deposit Collection

Rs. in Millions & Ratio in %

FY	BOK			LBL		
	Total Deposit	Loan & Advance	Ratio	Total Deposit	Loan & Advance	Ratio
2009/10	18083.9	14894.7	82.4	37348.3	27816.6	74.5
2010/11	20315.8	17128.9	84.3	46334.8	29207.4	63.0
2011/12	21018.4	17689.5	84.2	49691.4	39483.4	79.5
2012/13	24991.4	20697.4	82.8	55023.7	45743.4	83.1
2013/14	27701.1	18606.0	67.2	63611.3	46577.0	73.2
Mean	**22422.1**	**17803.3**	**80.2**	**50401.9**	**37765.6**	**74.7**
SD	**3863.16**	**2118.23**	**7.31**	**9788.92**	**8894.69**	**7.62**
CV	**17.23**	**11.90**	**9.12**	**19.42**	**23.55**	**10.20**

Source: Annual Report of BOK & LBL from the FY 2009/10 to 2013/14

Above table shows that the level of actual loan and actual deposit collection. In average BOK and LBL 80.2 percent and 74.7 percent loan disbursement over the study period. So BOK is higher than LBL for loan disbursement. However, disbursement of credit/loan also satisfactory in comparison with deposit in order to find out nature of variability and standard deviation 7.31 and coefficient of variation is 9.12 percent in BOK and standard deviation 7.62 and coefficient of variation is 10.2 percent in LBL.

4.4 Working Capital and Liquidity Ratio

Working capital is the portion of an organization total capital, which is employed in short term operation that is current assets less current liabilities and 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 BOK & LBL. Current ratio is calculated dividing current assets by current liabilities.

Table 4.6
Working Capital and Current Ratio

(Rs. in Millions & Ratio in times)

Fiscal Years	BOK				LBL			
	CA	**CL**	**WC**	**CR**	**CA**	**CL**	**WC**	**CR**
2009/10	2421.5	1365.4	1056.1	1.8	3714.3	3433.4	280.9	1.1
2010/11	2724.4	1451.3	1273.1	1.9	3241.5	2551.1	690.4	1.3
2011/12	2158.9	1216.1	942.8	1.8	5829.7	2972.1	2857.6	2.0
2012/13	3901.3	2154.6	1746.7	1.8	5991.1	4545.2	1445.9	1.3
2013/14	4290.6	2356.7	1933.9	1.8	9690.3	9423.1	267.2	1.0
Mean	**3099.3**	**1708.8**	**1390.5**	**1.8**	**5653.4**	**4625.0**	**1108.4**	**1.3**
SD	**941.64**	**511.25**	**432.49**	**0.04**	**2472.06**	**2891.38**	**1088.7**	**0.38**
CV	**30.38**	**29.92**	**31.10**	**2.34**	**43.73**	**62.52**	**98.2**	**28.82**

Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

The current ratio of BOK and LBL are in fluctuating trend. In general, it can be said that both banks have sound ability to meet their short-term obligations. For FY 2010/11 BOK standard ratio is 1.9 and in FY 2011/12 LBL standard ratio is 2.0. In an average, liquidity position of BOK is greater than LBL i.e. 1.8>1.3 due to high mean ratio. So, BOK is sound in meeting short-term obligation than LBL. Likewise, S. D. and C.V. of BOK is less than LBL i.e. 0.04 < 0.38 and 2.34<28.82. It can be said that credit ratio of LBL is more consistent than BOK. Lastly from the above analysis it is known that all these two banks have weak liquidity position because the standard ratio is 2:1.

4.5 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 shareholder's equity. The debt-equity ratio can be calculated dividing to borrowings by share holder equity the details of borrowings and share holders equity.

Table 4.7

Debt Equity Ratio of BOK & LBL *(Rs. in Millions, Ratio in Times)*

FY	BOK			LBL		
	Total Debt	SHE	DE Ratio	Total Debt	SHE	DE Ratio
2009/10	18641.4	1072.1	17.4	40781.7	1238.6	32.9
2010/11	21307.6	1353.3	15.7	48885.9	1713.5	28.5
2011/12	22234.5	1575.1	14.1	52663.5	2185.8	24.1
2012/13	26406.9	1812.9	14.6	59568.9	2632.6	22.6
2013/14	29219.1	1951.9	15.0	73234.4	3161.8	23.2
Mean	**23561.9**	**1553.1**	**15.4**	**55026.9**	**2186.5**	**26.3**
SD	**4217.62**	**352.95**	**1.28**	**12230.76**	**753.73**	**4.39**
CV	**17.90**	**22.73**	**8.36**	**22.23**	**34.47**	**16.71**

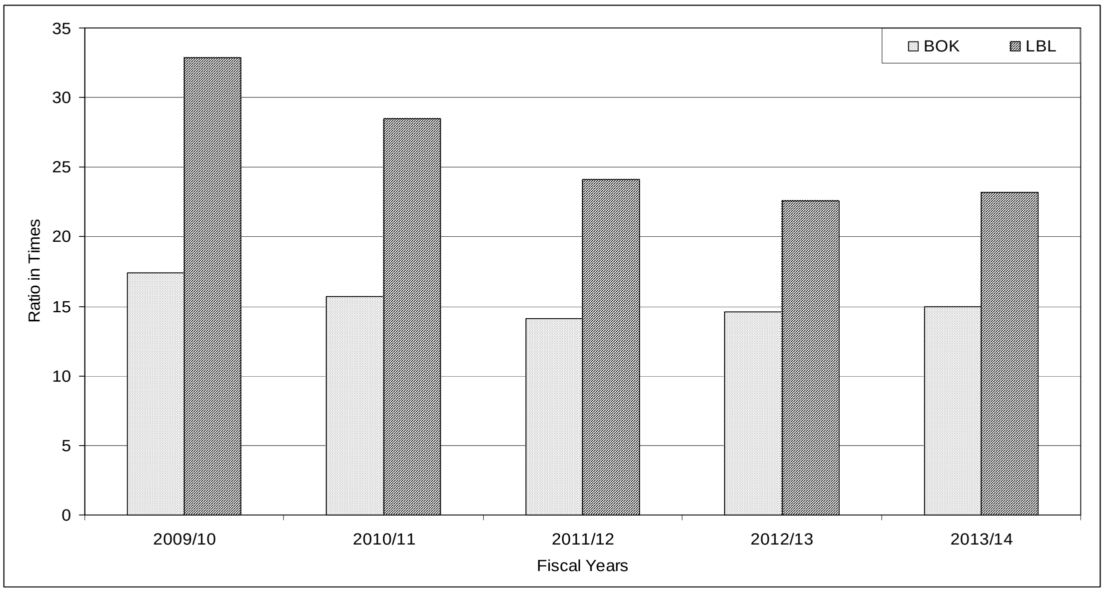
Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

The above table shows the debt equity ratio of BOK & LBL. Here the range of debt equity ratio of BOK & LBL is 14.1 to 17.4 and 22.6 to 32.9 respectively. The trend of debt equity ratio is fluctuating every year.

Both banks 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 LBL financial strength is strong because it has more internal fund to repay the borrowing capital. The figure of long term debt and share holder's equity is presenting in the figure below.

Figure 4.5

Bar Diagram Showing Debt Equity Ratio of BOK & LBL



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 five year's period. The position of shareholder equity is higher than the long term debt. This indicates that the bank used more internal fund than external fund.

4.6 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.

Table 4.8
Interest Coverage Ratio of BOK & LBL
(Rs. in Millions, Ratio in Times)

FY	BOK			LBL		
	EBIT	**Interest Exp.**	**ICR**	**EBIT**	**Interest Exp.**	**ICR**
2009/10	1246.4	893.2	1.4	2220.1	1153.3	1.9
2010/11	1338.5	903.1	1.5	2766.1	1960.1	1.4
2011/12	1538.3	1218.8	1.3	3061.1	2946.7	1.0
2012/13	1535.3	1484.5	1.0	4007.1	3152.1	1.3
2013/14	1630.5	1219.4	1.3	4651.1	2186.3	2.1
Mean	**1457.8**	**1143.8**	**1.3**	**3341.1**	**2279.7**	**1.6**
SD	**159.09**	**249.08**	**0.17**	**977.92**	**803.99**	**0.46**
CV	**10.91**	**21.78**	**13.06**	**29.27**	**35.27**	**29.34**

Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

The above table shows the position of interest coverage ratio (ICR) of BOK & LBL. The ICR of BOK is 1.4 times in FY 2009/10 this means EBIT is 1.4 times more than interest expenses. Likewise the ICR reached to 1.5 times in FY 2010/11. This result represents the BOK has increased its EBIT. Then the rate decreased to 1.3 in FY 2011/12 and it decreased in 2012/13 then again it increased to 1.3 in 2013/14. The interest coverage ratio of BOK ranges between 1.0 to 1.5 times. It means that the bank sufficiently capable to pay the interest expenses. Another, the ICR of LBL is 1.9 times in FY 2009/10 this means EBIT is 1.9 times more than interest expenses. Likewise the ICR decrease to 1.4 times in FY 2010/11. This result represents the LBL has decreased its EBIT. Then the rate decreased to 1.0 in FY 2011/12 and it increased in 2012/13 in 1.3 then again it increased to 2.1 in 2013/14. The interest coverage ratio of LBL ranges between 1.0 to 2.1 times. It means that the bank sufficiently capable to pay the interest expenses.

4.7 Return on Loan & advances

Every financial institution tries to mobilize their deposits on loan & advances properly. So this ratio helps to measure the earning capacity of selected banks. Returns on loan & advances ratio of selected banks are presented as follows.

Table 4.9

Return on Loan and Advance *(Rs. in Millions & Ratio in %)*

FY	BOK			LBL		
	NP	**L&A**	**Ratio**	**NP**	**L&A**	**Ratio**
2009/10	498.2	14894.7	3.34	1031.1	27816.6	3.71
2010/11	509.3	16847.1	3.02	1140.5	32902.8	3.46
2011/12	605.2	17247.8	3.51	1344.2	38765.6	3.47
2012/13	607.7	18064.1	3.36	1693.4	42731.2	3.96
2013/14	617.1	21805.7	2.83	2226.7	47522.9	4.69
Mean	**567.5**	**17771.9**	**3.21**	**1487.2**	**37947.8**	**3.86**
SD	**58.50**	**2537.97**	**0.28**	**484.27**	**7799.45**	**0.51**
CV	**10.31**	**14.28**	**8.67**	**32.56**	**20.55**	**13.12**

Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

Above table shows that return on loan and advances ratio of BOK is in fluctuating trend and LBL is also fluctuating trend. The highest ratio of BOK is 3.51 percent in the year 2011/12 and lowest ratio 2.83 percent in year 2013/14. The mean ratio is 3.21 percent. Whereas highest ratio of LBL is 4.69 percent in year 2013/14 and lowest ratio is 3.46 percent in 2010/11. The mean ratio is 3.86 percent. LBL shows the good earning capacity in loan and advances whereas BOK shows poor earning capacity in form of loan and advances. The C.V. of BOK is lower than LBL.

4.8 Return on Total Assets

This ratio measures the overall profitability of all working fund i.e. Total assets. A firm has to earn satisfactory return on working funds for its survival. The following table shows return on total assets ratio of selected banks.

Table 4.10

Return on Total Assets Ratio *(Rs. in Millions & Ratio in %)*

FY	BOK			LBL		
	NP	**TA**	**Ratio**	**NP**	**TA**	**Ratio**
2009/10	498.2	21009.3	2.37	1031.1	45941.6	2.24
2010/11	509.3	24058.8	2.12	1140.5	54609.8	2.09
2011/12	605.2	25582.1	2.37	1344.2	61292.6	2.19
2012/13	607.7	29834.1	2.04	1693.4	71545.3	2.37
2013/14	617.1	33575.3	1.84	2226.7	78260.1	2.85
Mean	**567.5**	**26811.9**	**2.15**	**1487.2**	**62329.9**	**2.35**
SD	**58.50**	**4940.63**	**0.23**	**484.27**	**12922.34**	**0.30**
CV	**10.31**	**18.43**	**10.59**	**32.56**	**20.73**	**12.60**

Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

Above table shows the return on total assets of BOK and LBL. However, LBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.35 percent of total assets in an average which is higher than that of BOK (i.e. 2.35>2.15). Where as S.D. and C.V. of BOK and LBL are 0.23, 10.59 and 0.30 and 12.60 respectively. Lower C.V of BOK shows that it has relatively low inconsistencies in the ratios.

4.9 Return on Equity

Equity capital of any bank is its owned capital. The prime objective of any bank is wealth maximization or in other words to earn high profit and thereby, maximizing return on its equity capital. Return on equity plays the measuring role of profitability of bank. It reflects the extent to which the bank has been successful to mobilize or utilize its equity capital. A high ratio indicates higher successful to mobilize its owned capital and vice-versa. Following table shows the return on equity of BOK and LBL during the study period.

Table 4.11

Return on Equity Ratio *(Rs. in Millions & Ratio in %)*

FY	BOK			LBL		
	NP	**SHE**	**Ratio**	**NP**	**SHE**	**Ratio**
2009/10	498.2	1072.1	46.47	1031.1	1238.6	83.25
2010/11	509.3	1353.3	37.63	1140.5	1713.5	66.56
2011/12	605.2	1575.1	38.42	1344.2	2185.8	61.50
2012/13	607.7	1812.9	33.52	1693.4	2632.6	64.32
2013/14	617.1	1951.9	31.62	2226.7	3161.8	70.43
Mean	**567.5**	**1553.1**	**37.53**	**1487.2**	**2186.5**	**69.21**
SD	**58.50**	**352.95**	**5.74**	**484.27**	**753.73**	**8.50**
CV	**10.31**	**22.73**	**15.29**	**32.56**	**34.47**	**12.28**

Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

The above listed table shows return on equity ratio of BOK and LBL. Above calculated statistic indicate that BOK has decreasing trend except FY 2011/12 and LBL have fluctuating trend. LBL has higher ratios in each year then that BOK and it has also higher mean ratio (i.e. 69.21>37.53). Despite stiff competition and an adverse macroeconomic environment, LBL is currently generating higher ROE in comparison with BOK. In brief, it signifies that the shareholders of LBL are getting higher return but in case of BOK, they are getting lesser. It can be concluded that LBL has better utilized the equity for the profit generation. It proves to be a good strength of LBL in attracting future investment also while BOK shows its weakness regarding efficient utilization of its owner's equity in comparison with LBL. LBL has homogeneous return in each year. It is the strength point of LBL. LBL has relatively less inconsistency throughout the study period due to it's lower C.V.

4.10 Interest Earned to Total Assets Ratio

Interest earned to total assets ratio evaluates how successful the selected banks are mobilizing their total assets to achieve high amount of interest. Higher the ratio indicates the higher interest income of the selected sample banks. The total interest earned to total assets ratio of BOK and LBL.

Table 4.12

Total Interest Earned to Total Assets Ratio

(Rs. in Millions & Ratio %)

FY	BOK			LBL		
	Interest Earned	**TA**	**Ratio**	**Interest Earned**	**TA**	**Ratio**
2009/10	1786.2	21009.3	8.50	2798.5	45941.6	6.09
2010/11	1870.8	24058.8	7.78	4049.8	54609.8	7.42
2011/12	2386.8	25582.1	9.33	5258.3	61292.6	8.58
2012/13	2620.9	29834.1	8.78	6138.1	71545.3	8.58
2013/14	2450.1	33575.3	7.30	5721.1	78260.1	7.31
Mean	**2223.0**	**26811.9**	**8.34**	**4793.2**	**62329.9**	**7.60**
SD	**371.34**	**4940.63**	**0.81**	**1361.76**	**12922.34**	**1.04**
CV	**16.70**	**18.43**	**9.69**	**28.41**	**20.73**	**13.67**

Source: Annual Report of Concerned Bank from FY 2009/10 to 2013/14

Above table shows that the total interest earned to total assets ratio of both banks are fluctuating trend. The mean ratio of BOK is 8.34 percent and LBL is 7.60 percent. The C.V. of LBL is higher than the C.V. of BOK which shows that LBL is more inconsistence than that of BOK.

4.11 Statistical Analysis

To make the analysis more fruitful and meaning of BOK & LBL certain statistical tools have been used. Here, Karl person's correlation coefficient and probable error is used to describe the relationship between CA and CL, deposit and loan & advance, total assets and net profit.

Karl Pearson's coefficient of correlation is most widely used in practice to measure the degree of relationship between two variables of the company.

4.11.1 Correlation between Current Assets and Current Liabilities

The coefficient of correlation between current assets and current liabilities of BOK & LBL for the different year has been calculated in the following table. In this analysis, CA is independent variable (X) and CL is dependent variable (Y). The main objectives of computing "r" between these two variables is to justify whether deposit are significantly used as CL in proper way or not.

Table 4.13

Correlation between Current Assets and Current Liabilities

Name of Banks	Evaluation Criterions			
	r	r^2	PE	6 PE
BOK	0.998	0.996	0.001	0.006
LBL	0.915	0.838	0.049	0.293

From the above table, it is found that coefficient of correlation between CA and CL of BOK and LBL is 0.998 and 0.915. It is shows that both banks have the highly positive relationship between these two variables. Moreover, the coefficient of determination of BOK is 0.996, PE is 0.001 and 6PE value is 0.006. So, the correlation coefficient of BOK is significant because the correlation coefficient is greater than the relative value of 6PE. Similarly, the coefficient of determination of LBL is 0.838, PE is 0.049 and 6PE value is 0.293. So, the correlation coefficient of LBL is also significant because the correlation coefficient is greater than the relative value of 6PE.

4.11.2 Correlation between Deposit and Loan & Advance

The coefficient of correlation between total deposit and loan & advance of BOK & LBL for the different year has been calculated in the below table. In this analysis, deposit is independent variable (X) and loan & advance is dependent variable (Y). The main objectives of computing "r" between these two variables is to justify whether deposit are significantly used as loan & advance in proper way or not.

Table 4.14

Correlation between Deposit and Loan & Advance

Name of Banks	Evaluation Criterions			
	r	r^2	PE	6 PE
BOK	0.949	0.900	0.030	0.181
LBL	0.985	0.970	0.009	0.054

From the above table, it is found that coefficient of correlation between deposit and loan & advance of BOK and LBL is 0.949 and 0.985. It is shows that both banks have the highly positive relationship between these two variables. Moreover, the coefficient of determination of BOK is 0.90, PE is 0.03 and 6PE value is 0.181. So, the correlation coefficient of BOK is significant because the correlation coefficient is greater than the relative value of 6PE. Similarly, the coefficient of determination of LBL is 0.97, PE is 0.009 and 6PE value is 0.054. So, the correlation coefficient of LBL is also significant because the correlation coefficient is greater than the relative value of 6PE.

4.11.3 Correlation between Total Assets and Net Profit

The coefficient of correlation between total assets and net profit of BOK & LBL for the different year has been calculated in the below table. In this analysis, total assets is independent variable (X) and net profit is dependent variable (Y). The main objectives of computing “r” between these two variables is to justify whether assets are significantly used as net profit in proper way or not.

Table 4.15

Correlation between Total Assets and Net Profit

Name of Banks	Evaluation Criterions			
	r	r^2	PE	6 PE
BOK	0.842	0.708	0.088	0.528
LBL	0.958	0.918	0.025	0.149

From the above table, it is found that coefficient of correlation between total assets and net profit of BOK and LBL is 0.842 and 0.958. It is shows that both banks have the highly positive relationship between these two variables. Moreover, the coefficient of determination of BOK is 0.708, PE is 0.088 and 6PE value is 0.528. So, the correlation coefficient of BOK is significant because the correlation coefficient is greater than the relative value of 6PE. Similarly, the coefficient of determination of LBL is 0.918, PE is 0.025 and 6PE value is 0.149. So, the correlation coefficient of LBL is also significant because the correlation coefficient is greater than the relative value of 6PE.

4.12 Trend Analysis

Trend analysis plays an important role in the analysis and interpretation of financial statement. Trend in general terms, signifies a tendency. It helps in forecasting and planning future operation. Trend analysis is a statistical tool, which shows the previous trend of the financial performance and forecasts the future financial results of the firms.

A) Trend Analysis of Total Deposit

Deposits are the important part in banking sector hence its trend for next five years will be forecasted for future analysis. This is calculated by the least square method. Here the effort has been made to calculate the trend values of total deposit of BOK and LBL for further five year.

$Y = a + bx$

Where as

$Yc = 22422.12 + 2391.0 X$ of BOK
$Yc = 50401.90 + 6121.49 X$ of LBL

Table 4.16

Trend Analysis of Total Deposit *(Rs. in Millions)*

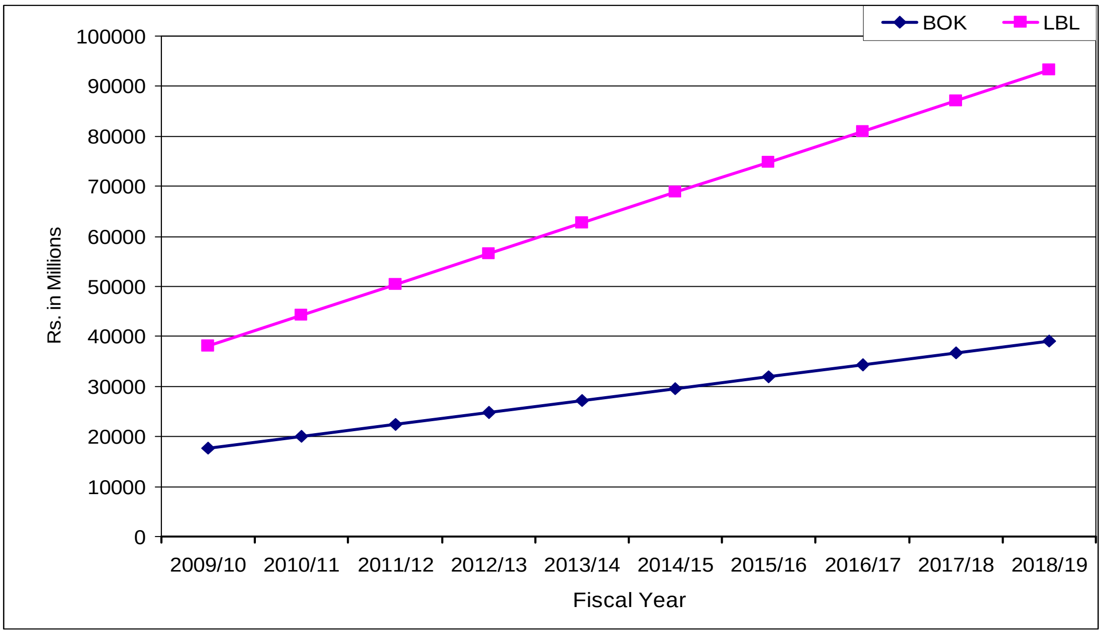
Year(x)	BOK		LBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2009/10	18083.9	17640.12	37348.3	38158.92
2010/11	20315.8	20031.12	46334.8	44280.41
2011/12	21018.4	22422.12	49691.4	50401.90
2012/13	24991.4	24813.12	55023.7	56523.39
2013/14	27701.1	27204.12	63611.3	62644.88
2014/15		29595.12		68766.37
2015/16		31986.12		74887.86
2016/17		34377.12		81009.35
2017/18		36768.12		87130.84
2018/19		39159.12		93252.33

Source: Appendix I

Above table shows that total deposit of BOK and LBL. Both banks is in increasing trend. The rate of increment of total deposit for LBL seems to be higher than that of BOK. The increasing trend of total deposit of LBL is more aggressive and high rather than BOK. It indicates LBL has more prospect of collecting total deposit.

Figure 4.6

Trend Line of Total Deposit between BOK and LBL



Source: Table No. 4.16

The trend analysis has projected deposit amount in fiscal year FY2014/15 to FY 2018/19. From the above trend analysis it is clear that LBL has higher position in collecting deposit than BOK.

B) Trend Analysis of Loan & advances

Here, the trend values of loan & advances between BOK and LBL have been calculated for further five year. The following table shows the actual and trend values of BOK and LBL.

Y= a + bx

Where as

Yc = 17771.88 + 1503.90 X of BOK

Yc = 37947.82 + 4924.10 X of LBL

Table 4.17

Trend Analysis of Total Loan and Advance *(Rs. in Millions)*

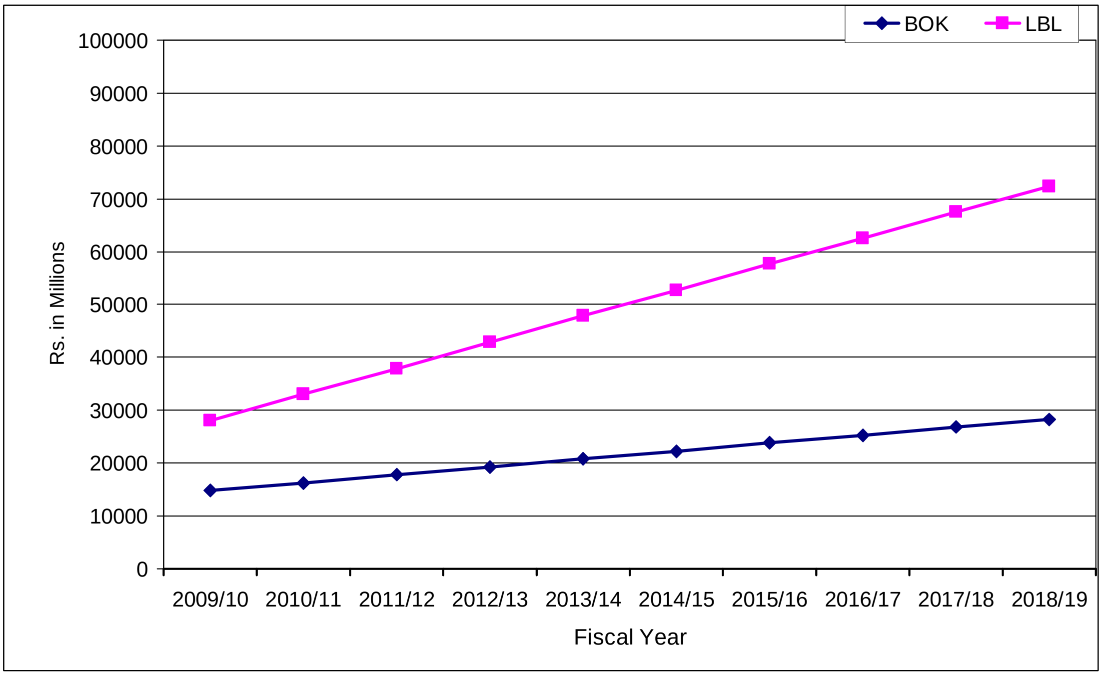
Year(x)	BOK		LBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2009/10	14894.7	14764.08	27816.6	28099.62
2010/11	16847.1	16267.98	32902.8	33023.72
2011/12	17247.8	17771.88	38765.6	37947.82
2012/13	18064.1	19275.78	42731.2	42871.92
2013/14	21805.7	20779.68	47522.9	47796.02
2014/15		22283.58		52720.12
2015/16		23787.48		57644.22
2016/17		25291.38		62568.32
2017/18		26795.28		67492.42
2018/19		28299.18		72416.52

Source: Appendix II

Above table depicts that loan & advances of BOK and LBL. Both Banks has in increasing trend. The increasing trend of BOK is lower than LBL. The actual value of loan & advances for BOK is quite fluctuating in relation to LBL. The trend projected for further five year FY 2014/15 to FY 2018/19.

Figure 4.7

Trend Line of Total Loan and Advance of BOK and LBL



Source: Table No. 4.17

From the above analysis, it is clear that both BOK and LBL is mobilizing its collected deposits and other funds in the form of loan & advances. Above table and figure shows the LBL has highly mobilizing loan & advances than the BOK.

C) Trend Analysis of Total Assets

Under this topic, an attempt has been made to analyze trend analysis total assets of BOK and LBL for further five years.

Y= a + bx

Where as

Yc = 26811.92 + 3090.73 X of BOK

Yc = 62329.88 + 8157.25 X of LBL

Table 4.18

Trend Analysis of Total Assets

(Rs. in Millions)

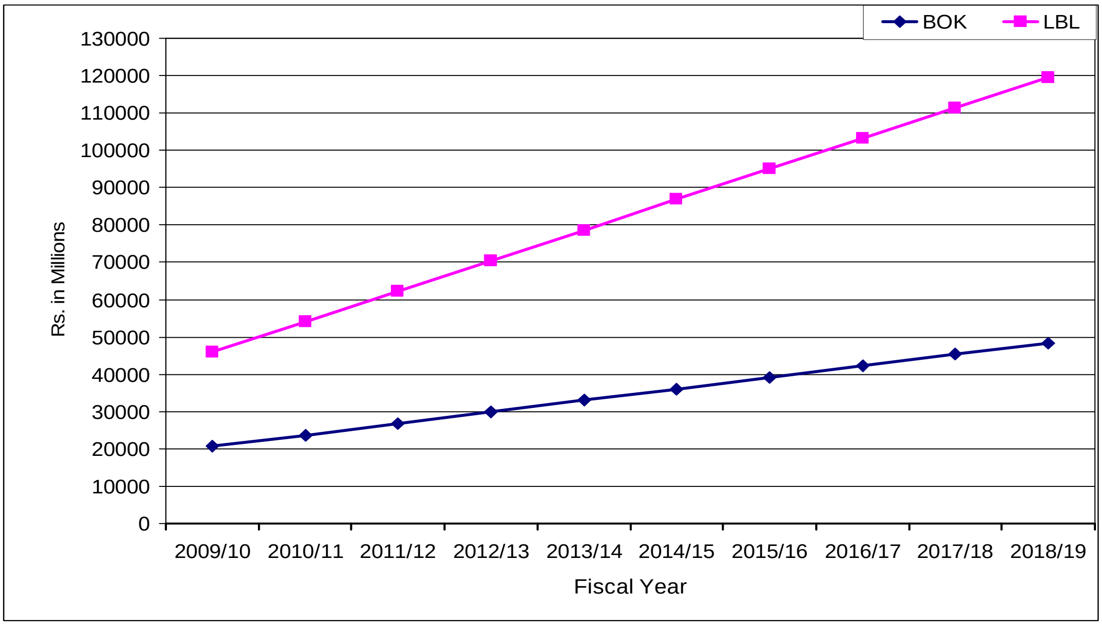
Year(x)	BOK		LBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2009/10	21009.3	20630.46	45941.6	46015.38
2010/11	24058.8	23721.19	54609.8	54172.63
2011/12	25582.1	26811.92	61292.6	62329.88
2012/13	29834.1	29902.65	71545.3	70487.13
2013/14	33575.3	32993.38	78260.1	78644.38
2014/15		36084.11		86801.63
2015/16		39174.84		94958.88
2016/17		42265.57		103116.13
2017/18		45356.30		111273.38
2018/19		48447.03		119430.63

Source: Appendix III

Above table shows the trend of total assets between BOK and LBL. Both have increasing trend in making total assets. LBL has high and upward trend of increasing, but BOK has moderate increasing trend of total assets. The trend of total assets projected to FY 2018/19. The forecasted trend projected that the LBL has greater increment rate in total assets than the increment rate of BOK.

Figure 4.8

Trend Line of Total Assets between BOK and LBL



Source: Table No. 4.18

The figure indicates LBL has highly mobilized the total assets rather than BOK.

D) Trend Analysis of Net Profit

Here, the trend values of net profit of BOK and LBL have been calculated for five years FY 2009/10 to FY 2013/14 and forecasting for the next five year till FY 2018/19.

Y= a + bx

Where as

Yc = 567.50 + 33.62 X of BOK

Yc = 1487.18 + 294.41 X of LBL

Table 4.19

Trend Analysis of Net Profit *(Rs. in Millions)*

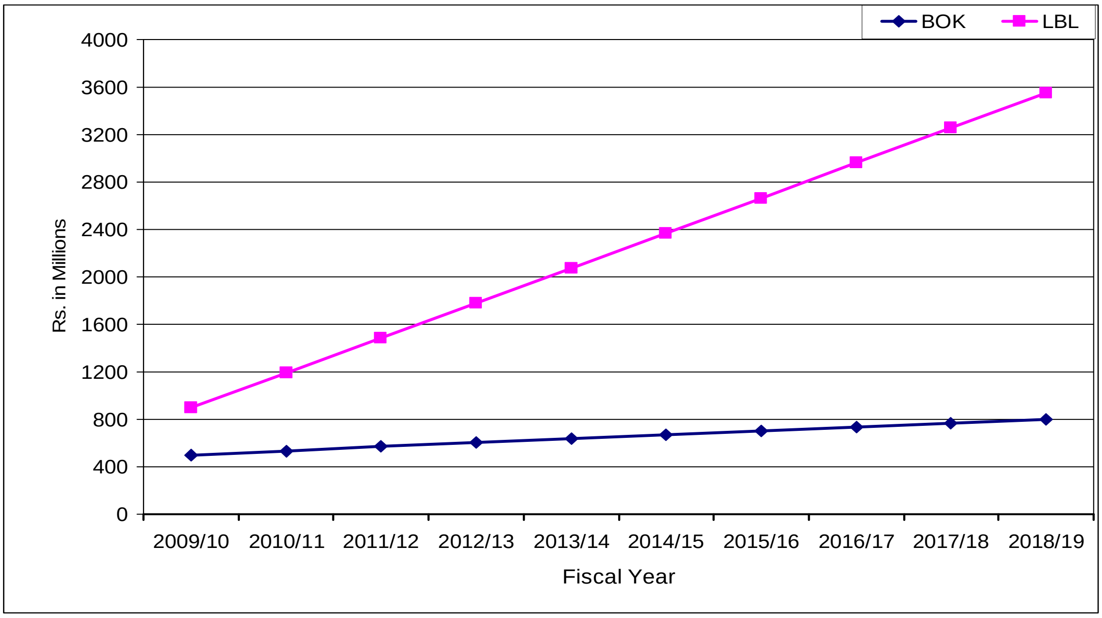
Year(x)	BOK		LBL	
	Actual Value	Trend Value	Actual Value	Trend Value
2009/10	498.2	500.26	1031.1	898.36
2010/11	509.3	533.88	1140.5	1192.77
2011/12	605.2	567.50	1344.2	1487.18
2012/13	607.7	601.12	1693.4	1781.59
2013/14	617.1	634.74	2226.7	2076.00
2014/15		668.36		2370.41
2015/16		701.98		2664.82
2016/17		735.60		2959.23
2017/18		769.22		3253.64
2018/19		802.84		3548.05

Source: Appendix IV

The above table reveals the trend of net profit of BOK and LBL. Net profit both banks forecasted in increasing trend. The trend of increasing value of net profit of LBL is higher and aggressive than BOK. The net profit of BOK and LBL has been increasing every year by Rs.33.62 million and Rs. 294.41 million respectively. The trend of net profit projected to FY 2018/19 i.e. further five year. Above statistics shows that both the banks have inconsistent net profit throughout the study period.

Figure 4.9

Trend Line of Net Profit between BOK and LBL



Source: Table No. 4.19

Above figure shows that, LBL is doing better in order to generate net profit during the projected study period in conclusion the prospect of profit generating capacity of LBL is high than the BOK.

4.13 Major Findings

The major findings of this study on profit planning in BOK and LBL are as follows.

i. The base of preparing the budgets is the actual deposit collection the last year. The achievement range of the BOK is slightly fluctuating. It ranged between 95.24 percent to 102.04 percent through the five year of study period.

ii. The current ratio of BOK and LBL are in fluctuating trend. Debt equity ratio range of BOK & LBL is 14.1 to 17.4 and 22.6 to 32.9 respectively. The trend of debt equity ratio is fluctuating every year.

iii. Above analysis shows that return on loan and advances ratio of BOK is in fluctuating trend and LBL is also fluctuating trend. The mean ratio of LBL is 3.86 percent and BOK is 3.21 percent. LBL shows the good earning capacity in loan and advances whereas BOK shows poor earning capacity in form of loan and advances. The C.V. of BOK is lower than LBL.

iv. However, LBL seems successful in managing and utilizing the available assets in order to generate revenue since its ROA ratio is 2.35 percent of total assets in an average which is higher than that of BOK (i.e. 2.35>2.15). Return on equity ratio of BOK and LBL above calculated statistic indicate that BOK has decreasing trend except FY 2011/12 and LBL have fluctuating trend.

v. It is found that coefficient of correlation between CA and CL, Total Assets and Net Profit of BOK and LBL is shows the highly positive relationship between these two variables.

vi. Loan & advances, total assets, investment and net profit of BOK and LBL has in increasing trend. The increasing trend of BOK is lower than LBL. LBL has high and upward trend of increasing total assets and trend of net profit of BOK and the trend of increasing value of net profit of LBL is higher and aggressive than BOK.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This chapter is focused on profit planning and control of Nepalese commercial banks i.e. Bank of Kathmandu Limited and Laxmi 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.

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 BOK & LBL.

The study is mostly based on secondary data and required data have been collected by using various sources. There are 30 commercial banks operating in Nepal which are taken as population of the study among them BOK & LBL has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools. BOK & LBL were one of the well established commercial bank in Nepal.

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 study some conclusion has drawn about the BOK & LBL. Profit planning and controlling system of BOK & LBL is very effective because it has generated more profit year after year. There is variance in budgeted and actual performance but it has always crossed budgeted figure. Actual deposit is also more than budgeted one. Analysis concludes that growth of bank is significant. BOK & LBL are increasing its internal fund by increasing capital year by year this means strengthen their capability internally. BOK & LBL are able to meet its targeted deposit collection and loan & advance. The relationship between budgeted and actual figures is positively correlated.

The major income source is interest the trend of interest is increasing trend every year. The liquidity position of both banks were better position bank has maintained the cash and bank balance to met the current obligations. The financial strength of BOK & LBL are strong since debt equity ratio shows that the BOK & LBL use more internal fund to repay its borrowings. The return on assets and return on capital is satisfactory of BOK & LBL it shows the good earning capacity of the bank. The result of the study shows the overall performance of BOK & LBL were satisfactory and progressive.

5.3 Recommendations

This study 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 BOK & LBL these are as follows:

i. Bank should develop its specific goal for the coming budget year. Such goals the operation of the bank may not be effective. So it is recommended banks should be increase deposit for gain more profit.

ii. The 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. Every business concerns have one another obligation i.e. corporate social responsibility so BOK & LBL needs more involvement in social activities in the coming days.

iii. People in rural area of Nepal still out of banking services so BOK & LBL were suggested to take bold steps to expand and upgrade its network to reach such area with their products and services.

iv. 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.

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www.laxmibanklimited.com.np

www.nepalsharemarket.com

www.nrb.org.np

Appendix I

Trend analysis of Total Deposit of BOK and LBL

(Rs. in Millions)

Year(x)	BOK	LBL
2009/10	18083.9	37348.3
2010/11	20315.8	46334.8
2011/12	21018.4	49691.4
2012/13	24991.4	55023.7
2012/13	27701.1	63611.3

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

BOK

a =22422.12

b = 2391.00

LBL

a = 50401.90

b = 6121.49

Where as

Yc = 22422.12 + 2391.0 X of BOK

Yc = 50401.90 + 6121.49 X of LBL

Appendix II

Trend analysis of Loan & Advance of BOK and LBL

(Rs. in Millions)

Year(x)	BOK	LBL
2009/10	14894.7	27816.6
2010/11	16847.1	32902.8
2011/12	17247.8	38765.6
2012/13	18064.1	42731.2
2012/13	21805.7	47522.9

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

BOK

a =17771.88

b = 1503.90

LBL

a = 37947.82

b = 4924.10

Where as

Yc = 17771.88 + 1503.90 X of BOK

Yc = 37947.82 + 4924.10 X of LBL

Appendix III

Trend analysis of Total Assets of BOK and LBL

(Rs. in Millions)

Year(x)	BOK	LBL
2009/10	21009.3	45941.6
2010/11	24058.8	54609.8
2011/12	25582.1	61292.6
2012/13	29834.1	71545.3
2012/13	33575.3	78260.1

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

BOK	**LBL**
a = 26811.92	a = 62329.88
b = 3090.73	b = 8157.25

Where as

Yc = 26811.92 + 3090.73 X of BOK

Yc = 62329.88 + 8157.25 X of LBL

Appendix IV

Trend analysis of Net Profit of BOK and LBL

(Rs. in Millions)

Year(x)	**BOK**	**LBL**
2009/10	498.2	1031.1
2010/11	509.3	1140.5
2011/12	605.2	1344.2
2012/13	607.7	1693.4
2012/13	617.1	2226.7

Let trend line be

Y = a + b x……………………. (I)

Where x = X - Middle year

Here,

$$a = \frac{\sum Y}{N}$$

$$b = \frac{\sum xY}{\sum x^2}$$

BOK

a = 567.50

b = 33.62

LBL

a = 1487.18

b = 294.41

Where as

Yc = 567.50 + 33.62 X of BOK

Yc = 1487.18 + 294.41 X of LBL