COMPARATIVE ANALYSIS OF PROFIT PLANNING AND CONTROLLING

(A CASE STUDY OF SBI BANK LTD AND EVEREST BANK LTD)

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RECOMMENDATION

This is to certify that the thesis

Submitted by

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Entitled

Comparative Analysis of Profit, Planning and Controlling
(**A Case Study of SBI Bank Limited and Everest Bank Limited)**

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for evaluation.

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VIVA-VOCE SHEET

We have conducted the Viva-Voce examination of the

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

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DECLARATION

I hereby declare that the work done in this thesis entitled **"Comparative Analysis of Profit, Planning and Controlling"** A Case Study of SBI Bank Limited and Everest Bank Limited, submitted to Shaheed Smriti 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 (M.B.S.) under the supervision and guidance of Mr. Khimananda Aryal, Lecturer of Shaheed Smriti Multiple Campus.

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Date:

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ABBREVIATIONS

BVPS	=	Book Value Per Share
CBB	=	Cash and Bank Balance
CPPC	=	Comprehensive Profit Planning & Control
DPR	=	Dividend Payout Ratio
DPS	=	Dividend Per Share
EBIT	=	Earning Before Interest Tax
EBL	=	Everest Bank Limited
EPS	=	Earning Per Share
FDR	=	Fixed Deposit Ratio
HBL	=	Himalayan Bank Limited
JVB	=	Joint Venture Bank
MP	=	Market Price
NGBL	=	Nepal Grindlay Bank Limited
NPAT	=	Net Profit After Tax
NRB	=	Nepal Rastra Bank
PE	=	Probable Error
PER	=	Profit Earning Ratio
PPC	=	Profit Planning & Control
ROA	=	Return on Assets
ROC	=	Return on Capital
ROCE	=	Return on Capital Employed
SBI	=	State Bank of India
TD	=	Total Deposit

CHAPTER ONE

INTRODUCTION

1.1 General Introduction

In simple sense, profit means peculiar gains excess of return over outlay. Profit is said to be reward for enterprise, the fourth factor of production. It doesn't occur usually because it is not contribution of single factor of production. Profit plays great role in measuring utility, for better incentive to work, in selecting proper resources and allocating it along with maximizing social economic welfare. Generating profit requires good deal of managerial capability and managerial talent. Profits are associated with entrepreneur and his functions. But different people (economists) from time to time expressed diverse and conflicting views about the nature ,origin and role of profit. Till today, there is no complete agreement among different people (economists) about the true nature and origin of profits.

There are several interpretation of term "*Profit*. An economist says the profit is reward for entrepreneurship for risk taking. A labor leader might say that profit is a measure of labor efficiency that 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 revenue agent might regard it as the base for determining income taxes. The accountant will define it simply as the excess revenue over the expenses of producing revenue in a given fiscal period.

"Profit is the primary objective of a business. In view of the heavy investment it is necessary for the success of most enterprises. Profit in the accounting sense tends to become long term objective which measure not only the success of a product but also the development of the market for it."

There is no complete agreement among the economists about the profit. Some economist says profit arises in a dynamic economy. In a static economy where nothing changes there can be no profit. (J. B. Clark, 1998)

Some economist says profit is reward of entrepreneur for introducing innovative function in the economy. According to them profit emerges due to successful innovation either cost falls below the prevailing price of the product or the entrepreneur is able to sell more and at a better prices than before (Joseph Schumpeter). According to economist F. H. Knight, profit is a reward for uncertainty bearing. He pointed out that entrepreneurs earn profits be causes they have to bear the risks of production.

Planning involves deciding in advance what to do, when to do it, where to do it, how to do it, and who is to do it. It implies determination of the objectives to be achieved and selection of the right course of action to achieve the desired objectives. A plan is a future course of action . Therefore, planning is based on forecasts or scientific estimates of future events. Planning is an exercise in coordination because it involves choosing the right course of action out of various alternatives. It involves taking decision in advances of action. The process of planning consist of:

1. Establishing objectives
2. Making forecasts
3. Formulating policies, procedures and rules.
4. Drawing program, schedules and budgets etc.

Planning is an intellectual or mental exercise requiring imagination and judgment. It is a rational or logical process that involves systematic thinking. Planning is the basic or primary function of management. It is performed at all levels of management and in every organization. Planning enables us to do thing in an orderly manner by reducing haphazard action and disorder. It increase economy and efficiency by minimizing random action. Planning focus in the proper utilization of resources. It enables us to face risk and uncertainty. It bridges the gap between where we are and where we want to be.

"Planning means to foresee and provide means for the future. The result envisaged the line of action to be followed, the states to go through and the methods to use. Forecasting is making an assessment of future and it is the basis of planning. To foresee means both to assess the future and make provision for it." (Foyal) After knowing the concept of "*profit planning*" profit planning is the sign in advances what is to be done in future for proper profit of business (Ninemein and Schmialgall). In the books "Basic account standard," define the topic profit plans "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 profit requirements. In the case of institutional operations it present a plan for spending income in a manner that does not result in a loss."

"Profit planning and budgeting is a forward planning that involves the preparation in advance of the quantitative as well as financial statements to indicate the intention of the management in respects of the various aspects of the business. Profit planning in fact, is management technique and it is a written document in which all aspect of business operation are expressed for the definite future of organization. Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operation and as a partial basis for the subsequent evaluation of performance. Thus, we can say the profit planning is a tool which may be used by the management in planning the future course of action and in controlling the actual performance.

Comprehensive Profit Planning and Control (CPPC) can be used in the same context in which comprehensive budgeting or managerial budgeting or business budgeting or simply budgeting are used. Profit Planning and control (PPC) is a new term in business organization. “Usually profits do not just happen, they are managed.” So Profit planning and control helps in effective management or achieving organization goals for every enterprises.

“Comprehensive PPC is viewed as a process designed to help management to perform significant phases of the planning and control functions effectively.

The PPC is viewed as a process designed for management to effectively perform significant phase of the planning and control functions.

The PPC Model Involves

a. Development and application of broad and long range objectives of the enterprises.

b. Specification of enterprises goals.

c. Development of a strategic long range profit plan in broad terms.

d. Specification of a tactical short range profit plan detailed by assigned responsibilities (Divisions, departments, projects)

e. Establishment of a system of periodic performance reports detailed by assigned responsibilities and

f. Development of a follow up procedures.

"A profit plan or budget is the formal expression of the enterprises plan and objectives stated in financial terms for a specified future period of time." (I. M. Pandey)

The PPC has some basic elements, which are as follows:

a. Comparative and Coordinated Plan

The budget prepared by different departments inside the organization have to be complied or coordinated and it is done by profit planning department.

b. Expressed in Financial Terms

The budget has to be expressed in monetary units. All the activities covered by budgets are related with funds. Budgets are expressed in Rupee, Dollars, Pounds etc.

c. Operating and Resources Plan

The budget must plan for quantity revenue and expenses related to a specific operation. The plan should be made for carrying out the operations. The planning for resources will include planning for assets and funds.

d. Budget should be a future plan for specific period to be relevant. Time dimension must be added to a budget.

1.2 Statement of Problem

Joint Venture Banks have shown their better performance than local commercial bank within short span of time. Even after that, finance companies, development banks, rural development banks and co-operatives societies are being operated side by side in a large number due to economic liberalization policies of the government especially after the restoration of democracy as a consequent, joint venture bank have come very competitive and they have ultimately affected their profitability.

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 Nepal SBI Bank Limited and Everest 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.

These Joint Venture Bank have not been found much responsive to meet the increasing resources need to the economy as expected before especially agriculture and other productive sector due to their nature of centralizing them in major cities and banks are forced to invest their fund in treasury bills, inter bank lending and development bonds which yield lower return to the bank.

Another increasing problem of these joint venture banks is rather than investing in productive sector for the development of indigenous enterprises. They have focused their investment for the promotion of overseas import trading services being directed by their profit maximizing objective. Their major portion of profit is through agency service and exchange equalization but not through the use funds in productive sector.

So, the prevailing challenge for the country is to direct these institution to provide service to entrepreneurs and towards the productive sector of the nation.

The major problems of these Joint Venture Banks are their profitability and operation expenses have been found inconsistent and differing according to them. So, “What are the reasons behind this?” and “What are the major affection factor?” are the main question about which the present study will try to analyze and examine the practice of profit planning in these banks comparatively. With out proper profit planning any business cannot run in right way, so every commercial enterprise should have systematic plan for profits in a manner that does not result in a loss.

The study tries to seek the answer to the following questions.

a. To what extent has the process of profit planning follows in these banks?

b. What are the main problems of these banks in developing and implementing profit plans?

c. How sound is the operational result of the concerned bank in relation to the profitability?

d. What is the relation between these two banks in terms of liquidity, profitability, capital structure turnover and cost effectiveness?

e. What steps should be taken to improve the profit planning system in these banks?

1.3 Objectives of the Study

The main objective of this study is to highlight the current practice of profit planning and its effectiveness in both banks. The specific objectives of the study can elucidate as follows.

a. To examine and compares the system of profit planning applied by both banks.

b. To evaluate and compare the liquidity, profitability, capital structure, turnover, cost effectiveness position of SBI and EBL comparatively.

c. To analyze and compare the banks deposit, mobilization and investment .

d. To forecast and compare the future trend by analyzing the past performance of total deposit ,loans and advance, total investment, net profit, revenue cost.

e. To show the relationship between two variables, relation of total deposit and net profit, performing Assets and net profit, total deposit and investment, total deposit and loans and advances.

1.4 Limitation of the Study

The research is going to be performed for the partial fulfillment of the requirement for the MBS degree. So the study will be bounded by the following limitations.

a. Since the study deals only with two banks viz. SBI and EBL, the result drawn from this study may or may not be applicable to other commercial bank of Nepal. Therefore, this study only focuses on profit planning of both banks not as whole activities of enterprises.

b. The study will mostly be based on secondary data i.e. published documents like balance sheet, profit and loss account, related journals, magazines, booklets etc.

1.5 Chapter Plan

This study has been defined into five different Chapter which are summarized as follows

Introduction

This is a First Chapter .It includes General Background of the study, it also gives a brief description of issued to be studied, objective of the study and drawbacks of the study.

Review of Literature

This second chapter deals with review of Literature and review of related study. It includes conceptual review of Commercial Bank, Conceptual review of profit, planning and controlling and review of previous thesis.

Research Methodology

This third chapter deals with introduction of research design, Nature and sources of data ,Data Collection Procedures, Population and Samples and Statically and analytical Tools.

Presentation and Analysis of Data

The fourth chapter deals with presentation of related data collection from different sources and analysis of them to reach closer to the actual result by using financial and statistical tools and technique. The received data will be analyzed, and way of analysis. This chapter mainly deals with the issues in the light of the theoretical prospective

Summary, Conclusion and Recommendation

The last chapter provides summary, conclusion and recommendation. The finding will be discussed and conclusion shall be stated suggestions, with regards to the analysis of profit, Planning and controlling between the studied Bank.

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. In the course of research review the existing literature would help to check the chances of duplication in the present study thus one can find what studies have been conducted and what studies have been conducted and what remains to go with.

This chapter highlights the literature available related to the present study. This chapter includes review of the following relevant literature to the commercial banks.

- ❖ Conceptual review of commercial banks.
- ❖ Conceptual review of profit planning and control
- ❖ Review of previous thesis.

2.1 Conceptual Review of Commercial Banks

The concept of banking has been developed from the ancient history with effort of ancient goldsmiths who developed the practices of storing people’s gold and valuable under such arrangement, the depositors would leave their gold for safekeeping and given a receipt by the gold smith. Whenever, the receipt was presented the depositors would get back their gold and valuables after paying a small amount as fee for safekeeping and serving.

A Bank is a business organization that receives and holds deposit or funds from other. Makes loans or extend credits and transfer funds by written orders of depositors."

A commercial bank is one which exchange money, deposit money, accepts deposits, grants loan and performs commercial banking function and which is not a bank meant for co-operative , agriculture, industries, or for such specific purpose."

"Ordinary banking business consists of changing cash for bank deposits and bank deposits from one person to corporation (one depositor to another) giving bank deposits in exchange for bills of exchange, government bonds, secured and unsecured premises businessmen to repay."

"Banking means the accepting for the purpose of lending or investing the deposits of money from the public, repayable by cheques, drafts, and order or otherwise."

"A bank's business is basically to buy and sell credit, credit instruments are its stock in trade. Also on the basis of its own credit a bank creates money by transferred by credit instruments."

"A Commercial bank is a corporation that accepts demand deposits subject to cheque and makes short term loan to enterprises regardless of the scope of its other services."

By the above analysis, we can summarize the function of a bank as follows:

Receiving deposits, granting loans, receiving valuable for safe custody dealing in coined and uncoined gold and silver in one and token money.

Credit instruments giving guarantees and according to circumstances co-operating in the establishment of trading undertaking are the main function of a bank.

2.2 Conceptual Review of Profit Planning and Controlling

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.

Where as planning is the future oriented activity. which is the first essence of management, also all other functions are performed with in the framework of planning. It is the sole concept of any business organization without the proper and efficient planning; no firm can accomplish its predetermined goals and objectives. Hence it is the life-blood of any organization, which makes them efficiently run toward competent environment.

To forecast profit plan is known as profit planning. It is a part of overall planning process of an organization. The profit planning and control is used for the development and acceptance of objectives and goals as well as moving an organization efficiently to achieve objectives and goals. It is not a separate technique that can be thought of and operated independently of the total management process. The broad concepts of profit planning and control, entails an integrations of numerous managerial approach and techniques that might be exploited such as sales forecasting, sales quota system, cash flow analysis, variable budgets, production planning and cost control. A profit planning and controlling program helps the management to perform planning function by developing a long range and short-range profit plan. Profit planning and control is an important approach which has been developed for facilitation effective performances of management system mainly in profit oriented enterprises?

Fundamentally, management means co-ordination of human efforts for accomplishment of goals by utilizing the efforts of the people. PPC has wide application it can be applied both in profit making and non-profit making organization as well as both in manufacturing and non manufacturing business. Comprehensive budgeting or profit planning and control have been identified as a way of management of the firm. This requires high degree of management sophistication.

Profit planning and control has been regarded as comprehensive technique. Which realizes the close role of managers? It has adopted all the fundamental aspects of scientific management such as:

a. Management by objective (Organization adaptation)
b. Effective communication
c. Participatory management
d. Dynamic control and continuous feedback.
e. Responsibility and accounting
f. Management by expectation
g. Managerial flexibility
h. Realistic expectation
i. Timeliness
j. Individual and group recognition.

In broad term profit planning and control concept integrates all the functional and operational aspect of an enterprise. Due to his reason for an effective management system, an integration and interrelationship between all the function departments and sub function are needed.

"Comprehensive profit planning and control" is a new term in the literature of business. Though it is a new term but it is not new concept in the management. The other terms, which can be used in same context, are comprehensive budgeting, managerial budgeting, and simply budgeting.

2.2.1 Meaning and Definition of PPC

Forward 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. This entire process constitutes the budgetary planning and control program. It includes revenues, cost, profits, cash, working capitals, fixed assets, and financing and dividends distribution.

It extends through out the entire organization from the chief executive to the front line supervisory levels. PPC has the ultimate objectives of attaining optimum profit. As indicated by many successful applications, the most reasonable approach to attaining optimum profit is to plan the as a percentage of capital employed to produce them and to manage the enterprise with the objective of achieving the planned percentage.

Keller and ferrara further states about the principles and purpose of profit planning in the following points.

- To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibilities.

- To provide a co-ordinate plan of action, which is designed to achieve the estimates. Reflected in the budget?

- To provide the comparison of actual results with those budgeted and an analysis and interpretation of deviations by areas of responsibility to indicate courses of corrective action and to lead to improvement in procedures of building future plans.

- To provide a guide for management decision in adjusting plans and objectives as uncontrollable conditions change.

- To provide a read basis for making forecasts during the budget period to guide management in making day to day decisions.

Ninemeier and Schmidgall, in their book, "Basic Accounting Standard" defined the topic profit plan: "as an estimation and predetermination of revenue and expenses that estimates how much income will be generated and how it should be spent in order to meet investment and profit requirement. In the case of institutional operations it presents a plan for spending incomes in a manner that does not result in loss.

Explaining the use of budgets and profit plans, they further mention that, "One developed, managers 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 expenses category. Profit plans are also used to develop new budgets information from the current profit plan along with actual accounting information, becomes the basis for developing the next fiscal (accounting) year's budgets.

Neil W Chamberlin describes in his research report that, "PPC refers to the organization techniques and procedures. Where by long and short range plans are formulated. Considered and approved. Responsibility for execution is delegated: flexibility to meet changing condition in operations are analyzed and corrective action required to reach the desired objective is taken. A broad 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. The primary aim of profit plan is to assist in assuring the procurement of the profit planned, and to provide a guide for assisting in establishing the financial control policies, including fixed assets additions, inventories and cash position.

The adoption of a correctly constructed profit plan, provision provides opportunity for a regular and systematic analysis of incurred or anticipated expenses, organized future planning fixing of responsibilities and stimulation of effort. In short, it provides a tools for more effective supervision of individual operations and practical administration of the business as a whole.

Glenn A Welch summarizes the broad concept of profit planning and control in few words as, “The PPC means the development and acceptance of objectives and goals.

Some useful definitions of PPC, given by some authors in their books are picked out as follows.

“A profit plan or budget is the formal objectives, stated in financial terms for a specified future period of time.” (I.M. Pandey)

“A budget is a comprehensive and co-ordinate plan expressed in financial terms. For the operational and resources of an enterprise for some specific period in future.” (Frengen, James H.)

Planning is the specific process of setting goals and developing ways to reach them. Stated another way, planning represents the firms efforts to predict future event and be prepared to deal with them." (Robert W. Williamson)

"A budget detailed quantitative plan to guide its operation in the near future." (Richard M. Lynch)

2.2.2 Origin of Profit Planning and Control

Towards the end of 1921 National Budget for the FY 1922/23 was prepared in U.S.A. with the introduction of National Budget in U.S.A. businessman started realizing the importance of the budgeting. National budget covers or implies on the following:

- Forecast the probable future expenditure.
- Analysis of the sources from which income is to be realized to meet the expenses and.
- Maintaining co-ordination between expenditure and source of income.

During that time U.S.A. businessman were also suffering from the problem of co-ordination between expenses for material, rent and labor etc and receipt from sales. So they started thinking about adoption of budget. Slowly and gradually they started adopting the budget. This can be considered as origin of profit planning and control.

The first book ever written in business budget was published in UK in 1932. The name of the book was "Business budget and budgetary control" and the writer was A.W. Wills more. This book is a collection of six articles written by him, which were published in "The Times" engineering supplement published between 5-12-1931 to 6-12-1932 but this philosophy could not get popularity in U.K. before 1936.

Interest of British business was aroused by Mr. R. Dankerly who presented interesting reviews on several industries of U.S.A. which has introduced and adopted budgeting at the sixth international engineers for scientific management held in London in 1935 but actual popularity at PPC was gained after Marshall plan.

The Basis Elements of PPC

The Basic Comprehensive and Coordinated Plans

The profit planning considers all activities and operations of an organization. The budget prepared by the different departments inside the organization have to be compiled or co-ordinate and it is done by profit planning. So before preparing the profit planning, firstly all the departments have to be complied and that budget is known as comprehensive budget for profit planning.

It is expressed in financial terms:

All activities covered by budget are related with funds. So, the budget has to be expressed in monetary units i.e. Rupees. Dollars or Pounds etc.

It is the plan for the firms operating and resources:

Budget is a mechanization to plan for the firms all operations or activities. The two aspects of every operation are revenue and expenses. The budgets must plan for quantity revenue and expresses relegated to specific operations. Planning should not be done for revenue and expenses only. The plan should be made for carry out the operations. The planning for resources will include planning for assets and sources of funds.

It is a Future Plan for Specific Period

Time dimension must be added to a budget a budget is meaningful only when it is related to a specific of times. The budget estimates will be relevant only for some specific period.

Basic Assumption and Limitations of PPC

PPC system is more common in large companies to see management still, the usefulness of PPC to very small business could have been arcumvented by an early attempt to quality the dreams of head strong but sloppy thinking entrepreneurs who never directly faced the uncertainties of their venture. But there are so many assumption of using PPC programs. Firstly, the basic plans of a business must be measured in terms of money. If there is to be assurance that money will be available for the needs of the business.

Secondly, it is possible to plan for the future of a business in a comprehensive way. Co-ordinates every aspect of the business with every other aspect to establish optimum profit goals. Thirdly, PPC is preplanning not merely what to do if things workout as forecasted, but also what to do if thing work out differently from the forecast.

“Because effective budgeting requires coordination planning, it is essential that all persons participating in the building of the budgets are contemplating the some company, industry and general economic conditions, this can be accomplished by issuing a statement of basic assumptions prior to the start of the budgeting system.”

PPC is an important tool for management. But each tool suffers from some limitations and it's use is fruitful within these limits PPC is also not a limitless tool. So it is essentials that the user of PPC must be having full knowledge of its limitations. The limitations of budgeting are as under:

a) **Based on estimates**

PPC is not an exact science. It is based on estimates. Transects of a PPC depends to a large degree on the accuracy with which a basic estimates are made. Therefore, estimates should be made on all the facts available. Using correct and modified statistical tetchiness and managerial judgments can make the accurate estimate.

b) **Danger of Rigidity**

PPC is an estimation and quantitative expression of all recent data. So it can be the tendency to attach some sort of rigidity on finality. But rigid ness makes PPC useless. For usefulness the PPC must be flexible. Various techniques must be tried to improve or discard and replace other. In other words, the PPC program must be dynamic in every sense some word.

c) **Application for the long period:**

The installation of a complete PPC is not possible a short period. It should be continuous used in the business and should revised and modified with changed situation in the business.

d) **Execution is not automatic:**

A skillful prepared PPC will not itself improve the management of an enterprise unless it is properly implemented. For the successful of the PPC. It is essential that it is understand by all the related present side the enterprises. It is very much required that each executive must fell the responsibility that should make efforts to attain the budgeted goals. Departmental heads should seriously think that it is their individual responsibility to fulfill the target set up in their department budget. The success of a budgeting system totally depends upon the efficient managements and administration.

e) Not a substitute for management:

PPC is a management tool. It is not a substitute for the management. It is totally wrong to think that the introduction of PPC is alone sufficient to ensure success and to guarantee future profits. It is only for achieving the end.

f) Costly affairs:

The installation of a PPC system is an elaborate process involving much times and costs. Normally it is so costly that small industries can not afford it. Even for a large concern it is suggested that there should be some correlation between the cost of operating the budgeting system and benefits exceed the costs.

g) Proper evaluation:

For finding out the inefficiencies, proper evaluation should be made on the absence of proper evaluation, budgeting will hide inefficiencies. So there should be continuous evaluation of the actual performances, standard also should be reexamined regularly.

h) Lower morale and productivity:

Unrealistic targets should not be set and used as a pressure tactic. By doing it PPC will lower morale ad productivity. To some extent

PPC may be used as pressure device, but it extent must be carefully determined.

2.2.3 Purpose of PPC

A comprehensive profit planning and control is a systematic and formalized approach. The PPC is for stating and communicating the firm's expectation and accomplishing management in such a way as to maximize the use of profit plan is to achieve the maximum benefit from the resources available of an organization over a particular span of time. It serves basically as a tool for management control. The maximum objective of PPC is to assist in systematic planning and in controlling the operations of the enterprise. In fact it is best source of communication and an important tool in the hands of management. The purpose of budgeting or PPC may be summarized as follows:

a) To state the firms expectation in clearly formal terms to avoid confusion and facilitate to their attainability.

b) To communicate expectation to all departments of the management of the firms so that they are under stood, supported and implemented.

c) To provide a detailed plan of action for reducing uncertainties and for its proper direction of individual and group efforts to achieve goals.

d) To coordinate the activities and efforts in such a way that the use of resources are maximized.

e) To provide a means of measuring and controlling the performance of individual and units to supply information on the basis of which the correction action can be taken.

Some Argument for and Against PPC

The following are main arguments usually given for profit planning and control.

1. It force early consideration of basis polices.
2. It requires adequate and sound organization structure, that is, there must be a definite assignment of responsibility for each function of the enterprise.
3. It compels all members of management, form the top down, to participate in the establishment of goals and plans.
4. It compels departmental managers to make plan in harmony with the plans of other department and of the entire enterprise.
5. It requires that management put down in figures what is necessity for satisfactory performance.
6. It requires adequate and appropriate historical accounting data.
7. It compels management to plan for the most economical use of labor, material and capital.
8. It instills at all levels of management the habit of timely, careful and adequate consideration of the relevant factors before reaching important decisions.
9. It reduces cost by increasing the span of control because fewer supervisors are needed.
10. It frees executives from many day to day internal problems through predetermined polices and clear cut authorities

relationship. It their by provides more executive time for planning and creative thinking.

11. It tends to remove the could of uncertainty that exists in many organizations especially among lower levels of management, relative to basic policies and enterprise objectives.

12. It pinpoints efficiency and inefficiency.

13. It promotes understanding among members of management of their coworker's problems.

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

15. It forces a periodic self analysis of the company.

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

17. It checks progress or lack of progress toward the objective of the enterprise.

18. it forces recognition and corrective action.

19. It reward high performance and seeks to correct unfavorable performance.

20. It forces management to consider expected future trend and conditions.

The following main arguments are usually given against profit planning and control.

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

2.2.4 Advantage of PPC

1. Discipline in operation: Profit planning ensures discipline in operations . it requires the whole organization to undertake systematic action in the development of operating plan.
2. Realization of actual needs and wants: profit planning helps one to distinguish between actual needs and wants. It enables the management to lay down an order or priorities and reflects some planning of long and short term requirement in a business.

3. Consciousness: Profit planning encourages an atmosphere of profit consciousness and cost consciousness through out the organization.

4. Identification of Change: The currents year's budget is usually adjusted to reflect change in material cost. Labor rates is easily identifiable.

5. Incentive e for management development: Manager at different levels has to participate in the development of the profit plan. This provides an excellent training ground for the managers to know the process of planning in depth.

6. Management by exception: The different accounting reports concentrate on the variations from the plan. They pinpoint significant exception. This naturally supports the practice of management by exception.

7. Periodic appraisal: profit planning necessitates a periodical and critical appraisal of very elements of a business. It reviews the necessity and cost of such function.

8. Accounting into future: Profit planning projects accounting into the future. It reflects the pattern of a plan, which is directed towards future.

9. Refinement: A profit planning can be refined and approved in good time for implementation.

10. coordination : It necessitates a high degree of coordination and teamwork.

11. Deficiencies detected: Profit planning brings the limelight of those areas which are deficient in certain respect.

12. Result: If properly organized and fully supported by the top management profit planning yields good result.

13. Profit consciousness: It generates profit consciousness and provides encouragement and incentive to the management to look out for profit making or cost saving opportunities.

14. Responsibility Center: As decentralization of responsibility is the feature of profit planning, each manager works critically in his own area of responsibility. Profit planning thus fixed the responsibility center for the manager.

15. Maintaining profit level: A well organized profit planning program enables the management to maintain a level of which will ensure the continuation of fulfillment of management responsibilities.

16. Understanding co-workers problems: It promotes understanding among member of management of their co-workers problems.

17. Remove the cloud of uncertainty: It tends to remove the cloud of uncertainty that exists in my firms, especially among lower levels of management relative to basic policies and enterprise objectives.

The Fundamental Concept of PPC

The fundamentals are concerned with effective application of the theory at management process. It is applied for desirable management orientation. A successful and sound PPC system based upon certain prerequisites. These prerequisites or essentials represent management attitude. Organization structure and managerial approaches necessary for the effective and efficient application of the PPC system. The following are some of the important essentials or fundamentals for successful PPC.

- Top management support or managerial involvement and commitment.
- Clear and realistic goals.
- Assignment of authority.
- Creation of responsibility centers.
- Adaptation of the accounting system. (Responsibility accounting)
- Full participation
- Effective communication.
- Budget education.
- Flexible application.
- Realistic expectation.
- Timeliness
- Individual and group re-organization.
- follow up.
- A strategic (Long range) profit plan.
- A tactical (short range) profit plan.
- A behavioral management program.

Establishing the Foundation of PPC

The PES should be established a sound foundation for initiating a PPC program for the successful implementation of the profit plan program the enterprises should take certain steps, these steps are:

1. commitment by the top management to broad concept of PPC.
2. The controllable and non-controllable variables must be identified and evaluated.

3. There should be evaluation of the organizational structure and assignment of managerial responsibilities and implementation of changes deemed necessary for effective planning and control.

4. There must be an evaluation and reorganization of the accounting system to ensure that it is tailored to the organizational responsibilities.

5. Determination of policy about the time dimension.

6. Development of budget education program.

2.3 Review of Previous Thesis

Various thesis works have been done in different aspects of commercial banks such as lending policy, interest rate structure, investment policy, resource mobilization, capital structures etc. but the concept of profit planning and control still new in non manufacturing concern.

There are various thesis works, which have been submitted in different of commercial bank in which profit planning and control is directly or indirectly linked although a separate study of profit planning is missing linkage.

Mr. Pramod Dhungana (1994) conducted “A study of joint Venture Bank Profitability”. The main objectives of this study is to assess the profitability position of joint venture Bank in Nepal during the period of five years from 1987/88 to 1991/92.

Other objective of the Study was:

- To identify whether the profitability of joint venture banks are optimal

- To identify the pattern of profitability of joint venture banks especially Nepal Grindlays Bank Limited.
- To suggest on the basis of findings and analysis.

The major findings, he had present were as follows.

- Interest income of Nepal Indosuez Bank Limited was the highest.
- NGBL'S commission and discount earning and foreign exchange income were higher than both of NIBL and Nabil.
- Nabil's operating income was appeared higher than other banks.
- NIBL had paid highest tax per share than other banks and NGBL paid the same east.
- In average, Nabil, NIBL and NGBL had highest personnel expenses interest expenses on deposit and other operating expenses respectively.

Mr. Prakash Chandra Parajuli (1996) the period of 5 years beginning from 1989/90 to 1993/94. The objective of the study were to examine relative financial performance of NGBL and NABIL effectiveness of monitoring and collecting policies of bank. His major findings were a liquidity position of NABIL is relatively higher and ti has better performance regarding the activity ratio coverage ratio. DPS, TPS, and D/P ratio than that of NGBL. On the other hand, EPS an almost of the profitability ratio of NGBL IS higher than that of NABIL.

Similarly, **Mahindra Mandal (1996**) has highlighted the conceptual frame work of JVBS with reference to NABIL, NISBL and NGBL for the period of 1989/90 to 1993/94. According to the conclusion of his study NISBL is in better position regarding liquidity position. NPS market price to BVPS . NGBL has shown their highest performance in terms of EPS. But, market rate of return and growth rates with respect to NP, EPS and DPS of NABIL are significantly higher than that of NISBL and NGBS. Correlation between debt and return is significantly for NABIL and NGBL but not significant for NISBL and correlation between deposits and investments of each JVB is significant.

Mr. Lek Nath Ghimire (2000) performed "A research for the period of 1993/94 to 1997/98 with the objective of analyzing and interpreting the financial performance. The major covered facts of this research was that the overall liquidity, earning and growth position of HBL was stranger than that of SBI's capital adequacy, quality of assets as well as turnover position was found to be utilize its resources more efficiently and lucratively. Income and operating expenses were in increasing trend and were dominated by interest in (case of) both the banks.

D. R. Shakya (2001) has specified the objectives as to analyze the trend of deposit and loans and advances and the liquidity, profitability capital adequacy position of NABIL and NGBL. According to the diagnose in made by Mr. Shaky a NABIL is comparatively more successful regarding deposit utilization activity ratio. It's capital structure position is better and capital structure ratio is in increasing trend. Whereas in the basis of liquidity and profitability NGBL is comparatively better position than on NABIL. The study has been conducted for the period of six fiscal year form 1988/89 to 1994/99.

Mr. Bishnu Dev Pandya (2001) for the period of four years beginning from 1994/95 to 1998/99. in the study researcher has tried to examine the growth of the sampled bank. In this research, he concluded that overall liquidity and capital structure position of the bank is not satisfactory. Overall profitability condition was highly appreciable profit generating capability through loans and advance appeared satisfactory trend of deposit collection showed that the bank was in a highest risk with respect to saving deposit as against the fixed deposits.

2.4 Research Gap

The research study is mainly concerned with the profit planning and controlling in EBL & SBI.

It will try to bridge the gap between the literature exploring to appraise the present practices of the bank comprehensive profit planning. It will be concise, practical, usable and valuable to the major parties interested in profit planning and also be useful and beneficial to banks management and other interested parties of EBL & SBI.

CHAPTER THREE

RESEARCH METHODOLOGY

“Research Methodology refers to the various sequential steps to be adopted by researcher in studying a problem with certain objective in view.

Basis objectives of this study is to highlight the current practices of profit planning and its objective effectiveness in Nepalese commercial Banks, especially two joint ventures banks namely Nepal SBI Bank Limited and Everest Bank Limited comparatively by analyzing financial statements mainly their profits and loss account and balance sheet. The study also deals with the necessary suggestions for betterment of their profit planning in future. So this chapter proposes to outline the methods followed to achieve the predetermined objectives. Therefore, the chapter includes the following with regard to the methodology:

- Research Design
- Sample and population
- Nature and resources of information
- Data collection Procedure
- Method of Data analysis

3.1 Research Design

The research is based on analysis of the past facts. In the study, researcher has analyzed the profit planning of two joint ventures banks for the past five years period. Thus, to achieve the stated objectives, descriptions and cumulative analytical research methodology have been followed.

3.2 Sample and Population

All the 27 commercial banks including JVs and domestic functioning in Nepal are the population among them two commercial banks namely Nepal SBI bank Limited and Everest Bank Limited are taken as a sample for the purpose of the research.

3.2.1 Profile of the Studied Banks

SBI Bank Limited [SBI]

SBI bank is the first indo Nepal Joint Venture in the financial sector sponsored by three institutional promoters namely, state bank of India. Karmachari Sanchaya Kosh (Employee Provident Fund) and Agricultural Development Bank through a memorandum of understanding singed on 17th July 1992. The bank came into operation on 8th July 1993 within a period of less than one year.

The bank received registration from Registrar of companies Ministry of Industry HMG on the 25th April 1993 and commence its first board meeting on the may 25th. 1993 to pave the way for operational zing the bank within the quickest possible time. The bank received certificate of commencement of business on the 30th June 1993. Moreover it received its license from NRB for all commercial banking transaction on the 6th July 1993.

The bank hand set up its corporate and banking office at Durbarmarg with computerized operation. However the space available at Durbarmarg was not adequate to facilitate its business. Later the corporate office was shifted to kamalpokhari leaving Durbarmarg office as banking office. Now, this bank has its corporate office at Hattisar. The bank is currently running its operation with thirteen branches in various part of kingdom.

Table No. 3.1

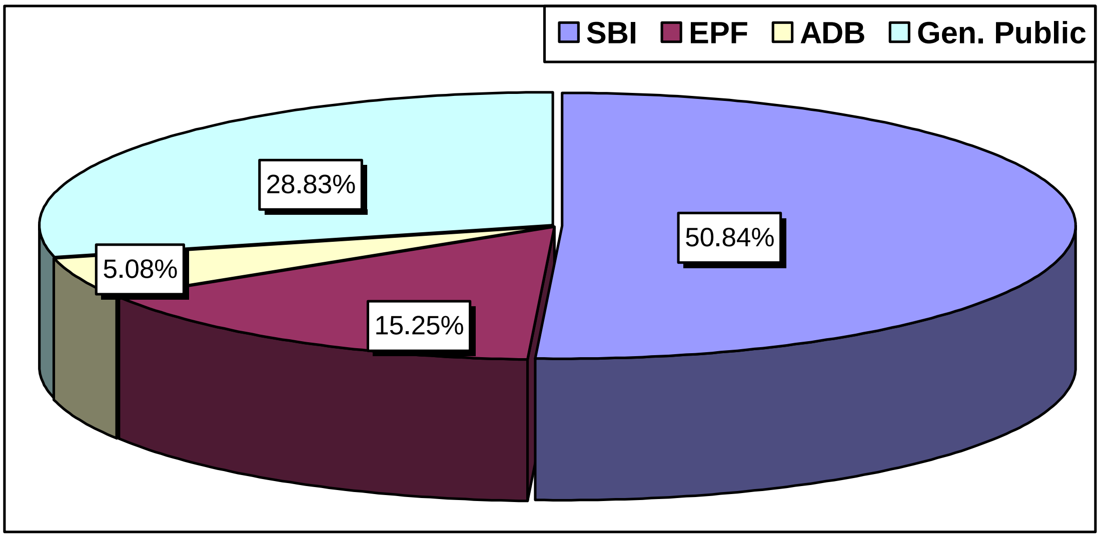
The Share Holding Pattern of SBI is as under

State Bank of India (SBI)	50.84%
Karmachari Sanchaya Kosh (EPF)	15.25%
Agriculture Development Bank (ADB)	5.08%
General Public (GEN. PUBLIC)	28.83%

Source: SBI Bank Limited

Figure No. 3.1

The Share Holding Pattern of SBI is as under



Source: Table No. 3.1

Banking Services and Products

- Conventional deposit scheme like fixed ,saving and current deposit
- Credit by way of term loans as well as working capital

- Retail finance (housing ,educational ,vehicle etc)
- SWIFT transfer facility
- 365 days banking
- ATM cards

Everest Bank Limited [EBL]

This bank was established on 3rd Marg, 2049 (17th Nov.1992)and started its operation from 1st Kartik 2051 (18th Oct. 1994) under the company act 2021 B.S. with an objective of carrying out commercial banking activities under the commercial bank act 2031B.S .From the very beginning of its establishment till Nov. 1996 it was managed by United Bank of India Limited (UBL). Later on UBL handed over the management to the Punjab National Bank (PNB) India. One of the largest commercial bank in India with over 3700 branches and 300 foreign correspondents around the globe. Under technical services agreement signed between the two banks, PNB has been providing top management services and banking expertise to EBL. The bank is currently in its operation with thirteen branches in various parts of the kingdom with the objectives of providing the full range of quality banking service to both business community and the common people. A main branch of this bank is located at lazimpat and out of the running thirteen branches five are within the valleys and eight are outside.

Table No. 3.2

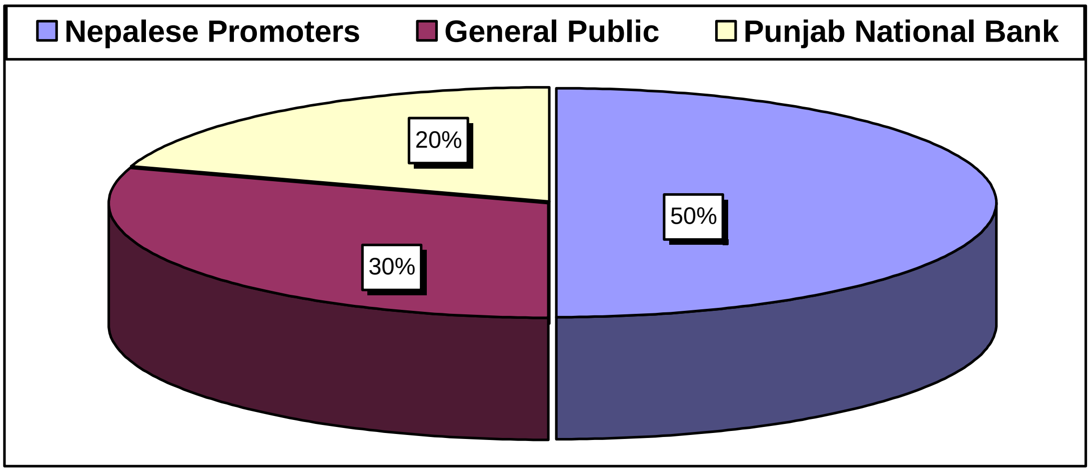
The Share Holding Pattern of EBL is as under

Nepalese Promoters	50%
General Public	30%
Punjab National Bank	20%

Source: EBL Bank Limited

Figure No. 3.2

The Share Holding Pattern of EBL is as under



Source: Table No.3.2

Banking Product and Services Offered by the Sample Bank

- Cumulative, unfixed, fixed and recurring deposit scheme
- SWIFT transfer facilities
- Merchant bank facilities
- Any branch banking facilities
- 365 banking
- Retail Finance

3.3 Nature and Source of Information

The data is mostly secondary in nature, besides some primary sources have also been used in this study. The secondary data especially published annual reports have been collected directly from concerned banks and other supplementary data and information official records of concerned banks, booklets, magazines, bulletins, internet web-site, security exchange center, Nepal Rastra Bank etc.

Direct oral interview and telephone inquiries with the related employees of concerned banks have been used as a source of primary data for the required information.

3.4 Data Collection Procedures

In course of collecting both the secondary and primary data the researcher made several visit to the concerned banks. In different visits, researcher get permission for conducting the research on their (banks) financial aspects, obtained financial statements (annual reports of the study period) and clarification of the financial items.

Besides these, several visits to central Library of T.U. have also been made to obtain related data regarding the study. Except the stated sources, a detailed review of literature has been carried out to draw the useful information.

3.5 Method of Data Analysis

The gathered data, especially the profit and loss and balance sheet of the banks, has been analyzed to get the desired objectives with the helps of various financial as well as statistical tools. Besides these, some graph charts, and tables have been presented to analyze and interpret the findings of the study. The tools applied are:

Financial Tools:

The financial tools used are different ratios like liquidity ratio, utilization ratios, Profitability ratios, Capital structure ratios and capital adequacy ratios.

Statistical Tools:

The statistical tools used are trend analysis and correlation analysis.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Performance Measures

Performance measures reflect strategic, operating and financing decision. Under this profitability ratios are analyzed.

4.1.1 Profitability Ratios

Every company should earn profit to survive and grow over a long period of time management of the company, creditors and owners all are interested in the profitability of the firm. So, profitability ratios are used to evaluate the operating efficiency of any organization besides, long term creditors evaluate profitability of the firm take decision whether to retain, enlarge or decrease their investments as well as owners was to get reasonable return on their investment. Management calculates the profitability determine their degree of efficiency, funds available for further growth of the firm and possibility of the investment enlargement. Profitability is the net result of a large number of policies and decisions.

Some major profitability identifying ratios used in this study are:

a. Net profit margin
b. Return on assets
c. Return on Equity
d. Interest Earned to Total Assets
e. Return on Risk Assets
f. Return on Total Deposit (Excluding Fixed Deposit)
g. Marginal Ratio

4.1.2 Net Profit Margin (NPM)

This ratio establishes relationship between the net profit and gross earning of banks and indicates managerial efficiency in reducing operating cost. Residual of gross profit after ducting operating expenses, inter and taxes is net profit. For the calculation of this ratio non-operating income is excluding from net profit (profit after tax) with view to examine profitability arising directly from sales .So, this ratio measures the overall ability of the bank to turn each rupee of investment in loans and advanced in to net profit.

$$\text{Net Profit Margin} = \frac{Net\ Income}{Sales}$$

This firm prefers high degree of NPM. if the degree of NPM is lower. it will lead the firm towards the failure for achieving satisfactory return on other's equity. So the firm can accelerate their profit according to their NPM proportionately for SBI.

Table No. 4.1

Net Profit Margin of SBI & EBL

Year	SBI			EBL		
	NPAT	Gross Earning	Ratio in %	NPAT	Gross Earning	Ratio in %
060/061	58974.52	415929.6	14.18	25033.7	139248	16.1
061/062	16760.4	452415.3	3.7	25230.3	219458	9.69
062/063	50065.48	495286.2	10.11	41265.4	327241	12.2
063/064	12490.03	505229.2	2.47	69705.7	465513	14.7
064/065	40843. 77	508372.7	8.03	85347.5	540931	15.6
Total	**138290.4**	**2377233**	**38.49**	**246583**	**1692390**	**68.2**
Average	**27658.09**	**475446.6**	**7.698**	**49316.5**	**338478**	**13.6**

Source: Annual Report of SBI & EBL

As revealed by the table ratios in SBI remained 14.83%, 3.70%. 10.11%, 2.47% and 8.03% respectively from the year 2060/61 to 2064/65. The ratio in EBL remained 16.14%, 9.69%, 12.16%, 14.67% and 15.57% respectively from the year 2060/61 to 2064/65. Mean of the ratio were 7.70% for SBI and 13.55% for EBL.

The ratio for SBI is highly fluctuating. This is due to the fluctuation in net profit after tax rather than gross earning. In EBL the ratio declined in the year 2061/62 but there after it is in rising trend. Mean of the ratios is greater in EBL. It signifies that profitability position with respect to gross earnings is stronger in EBL than that of SBI.

4.1.3 Return on Assets (ROA)

This ratio is a useful measure to examine the effectiveness of the banks total resources. It seeks to measure the profitability of all financial resources invested in the banks assets.

The ratio is computed by dividing Net profit after tax by Total assets and is presented as:

$$\text{Return on Assets} = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

Table No. 4.2
Return on Assets of SBI & EBL *(Rs. in Thousand)*

Year	SBI			EBL		
	NPAT	Total Assets	Ratio in %	NPAT	Total Assets	Ratio in %
060/061	58976.52	4122576	1.43	25033.7	141998.95	1.76
061/062	16760.4	4812001	0.35	25230.3	2293136.58	1.1
062/063	50065.48	516416	0.97	41265.4	3417850.74	1.21
063/064	12490.03	7385280	0.17	69705.7	5218677.34	1.34
064/065	40843.77	7021141	0.58	85347.5	6607170.72	1.29
Total	**179136.2**	**23857414**	**3.5**	**246583**	**17678834.3**	**6.7**
Average	**35827.24**	**4771483**	**0.7**	**49316.5**	**3535766.87**	**1.34**

Source: Annual Report of SBI & EBL

The table shows that the ratios appeared 1.43 appeared 1.43%, 0.35, 0.97%, 0.17%, and 0.58% in SBI and 1.76%, 1.10% 1.21%, 1.34%, for the respective year of studied period. Mean ratio remained and 0.70% and 1.34% for SBI and EBL respectively.

The ratio showed highly fluctuating trend in SBI. The bank was better position only in the year 2060/61 this was due to high NPAT. The NPAT of SBI is highly fluctuating than that of EBL. But the total assets of both the banks are in rising trend. The NPAT of EBL is also in rising trend than that of SBI. The ratios of EBL dip down in the year 2061/62 but is in rising trend thereafter. But in the final year of studied period the ratio slightly went down.

In brief, the analysis lead to conclude that profitability position of the bank regarding this ratio is far better in EBL, since its mean ratio was considerably higher. It indicates the higher utilization of banks assets and the success of management in overall operation in EBL than in SBI.

4.1.4 Return on Equity/Net Worth (ROE\ RONW)

The return on equity measures the book return to the owners of the firm. It is a bottom line ratio. This ratio is computed as:

$$\text{ROE or RONW} = \frac{Net\,Profit\,After\,Tax}{Share\,Holder's\,Equity\,or\,Net\,Worth}$$

In the above equation, the shareholder's equity /net worth includes common share capital, share premium and reserves and surplus less accumulated losses. It can also be found out by deducting the total external liabilities from total assets. Here, total assets denote all the assets excluding the intangibles assets and accumulated losses.

Bedsides, to the management, this ratio is of great interest to the present as well as prospective shareholders, Comparative study of this ratio reveals the relative performance and strengths of the company in attracting future investment. So, higher ratio indicates the higher efficiency of the firm.

Table No. 4.3

Return on Equity/Net Worth of SBI & EBL

Year	SBI			EBL		
	NPAT	**Return on Equity**	**Ratio in %**	**NPAT**	**Return on Equity**	**Ratio in %**
060/061	58976.52	192708	30.6	25033.7	127435.67	19.6
061/062	16760.4	196976.1	8.51	25230.3	415157.2	6.07
062/063	50065.48	224942.2	22.26	41265.4	202843.8	20.3
063/064	12490.03	238544.7	5.24	69705.7	319393.04	21.8
064/065	40843.77	560346.6	7.29	85347.5	530909.87	16.1
Total	**179136.2**	**1413518**	**73.9**	**246583**	**1595739.58**	**84**
Average	**35827.24**	**282703.5**	**14.78**	**49316.5**	**319147.916**	**16.8**

Source: Annual Report of SBI & EBL

The above table reveals that the ratios in SBI remained 30.60%, 4.51%, 22.26%, 5.24%, and 7.29% respectively from the year 2060/61to 2064/65. similarly the ratios in EBL stood 19.64% , 6.07, 20.34%, 21.82% and 16.08% from 2060/61 to 2064/65 respectively mean of the ratio were 14.78% and 16.79% for SBI and EBL respectively.

In SBI the ratios was very high for the first year of the studied period. Then the ratio drastically went down from 30.60% to 8.51. the ratio of SBI is highly fluctuating. The ratio in the FY 2063/64 remained least in SBI. But in EBL the ratio is in increasing trend except for the last year of the studied year. There is not so, drastic change in ratio of EBL as of SBI.

Mean of the ratios in EBL registered more, which indicates the earning of EBL with respect to the share holder fund is appreciably high. Contrary to it, return on net worth of SBI appeared fluctuating than that of EBL.

4.1.5 Interest Earned to Total Assets Ratio:

Interest earning is the major source of earning for a commercial bank. So, this ratio is performed to find out the percentage of the interest earned as compared to the assets of the bank. To get this ratio, interest earned amount is divided by the total assets of the bank, which is presented below:

$$Interest\,Earned = \frac{Interest\,Earned}{Total\ Assets}$$

Table No. 4.4

Interest Earned to Total Assets Ratio of SBI & EBL

Year	SBI			EBL		
	Interest Earned	Total Assets	Ratio in %	Interest Earned	Total Assets	Ratio in %
060/061	104200.9	1419982	7.34	104201	1419981.95	7.34
061/062	175938.6	2293137	7.67	175939	2293136.58	7.67
062/063	267443.3	3417851	7.82	267443	3417850.74	7.82
063/064	385015.9	5218677	7.38	385016	5218677.34	7.38
064/065	443820.9	6607171	6.72	443821	6607170.72	6.72
Total	**1376420**	**18956817**	**36.93**	**1376420**	**18956817.3**	**36.9**
Average	**275283.9**	**3791363**	**7.386**	**275284**	**3791363.47**	**7.39**

Source: Annual Report of SBI & EBL

The table highlights that ratios were 8.85%, 8.39%, 8.47%, 6.02%, and 5.69% from 2060/61 to 2064/65 respectively. Mean of the ratio appeared 7.48%. in the similar way, the ratio of EBL for the corresponding year remained 7.34% 7.67%, 7.82%, 7.38% and 6.72%. mean of the ratio stood 7.39%.

In SBI, the ratio showed fluctuation trend up to the year 2061/63 and showed declining trend from the year 2063/64. but in EBL, the ratio increasing trend up to the year 2062/63 and decreasing trend thereafter. Mean of the ratios is higher in SBI than that of EBL, From which we can conclude that SBI has managed the assets more effectively to earn the interest.

4.1.6 Return on Risk Assets:

This ratio is performed to get the percentage of net profit in comparison to risky assets. This ratio is calculated by dividing the net profit by the amount of net assets as below:

$$\text{Return on Risk Assets} = \frac{Net\ Profit}{Risk\ Assets}$$

Assets invested in loans and advances and bills purchased and discouraged are the risk assets of the bank. Higher ratio reflects the better profitability position the bank.

Table No. 4.5

Return on Risk Assets of SBI & EBL

Year	SBI			EBL		
	NPAT	Risk Assets	Ratio in %	NPAT	Risk Assets	Ratio in %
060/061	58976.52	2363559	2.5	25033.7	871677.98	2.87
061/062	16760.4	2963032	0.57	25230.3	1364884.23	1.85
062/063	50065.48	3559410	1.41	41265.4	2270179.65	1.82
063/064	12490.03	4188414	0.3	69705.7	3005757.91	2.32
064/065	40843.77	4299249	0.95	85347.5	398478.04	2.16
Total	**179136.2**	**17373665**	**5.73**	**246583**	**7910977.81**	**11**
Average	**35827.24**	**3474733**	**1.146**	**49316.5**	**1582195.56**	**2.2**

Source: Annual Report of SBI & EBL

As depicted by the table, the ratios stood 2.50% , 0.57%, 1.41%, 0.30% and 0.95% respectively during the study period in SBI where as it appeared 2.87% 1.85%, 1.28%, 2.32% and 2.16% respectively in EBL. Mean of the ratios were 1.14% and 2.20% for SBI and EBL respectively.

The ratios ranged from 0.30% in fourth year to 2.50% in the base year with highly fluctuating trend. the ratio showed some improvement from the year 2063/64 to 2064/65 but in EBL the ratio were decreasing trend up to the year 2062/63 and rise in the year thereafter. Mean of the ratios were great in EBL. It reveals that EBL has better utilized the risk assets like loans and advances, overdraft, bills purchased and discounted for the profit realization than that of SBI.

4.1.7 Return on Total Deposit (Excluding Fixed Deposit) :

Collected deposit are mobilized to earn profits. so, this ratio shows the earning capacity of the bank as compared to the total deposits accumulated. the ratio is archived by dividing net profit total deposits as follows.

$$\text{Return on Total Deposit} = \frac{Net\ Profit\ After\ Tax}{Total\ Deposit}$$

Higher ratio is preferred since it is the indicator of profitability position of the firm.

Table No. 4.6

Return on Total Deposit of SBI & EBL

Year	SBI			EBL		
	NPAT	Total Deposit	Ratio in %	NPAT	Total Deposit	Ratio in %
060/061	58976.52	3744507	1.58	25033.7	1124903.12	2.23
061/062	16760.4	4380019	0.38	25230.3	1948946.58	1.29
062/063	50065.48	4535734	1.1	41265.4	3057423.95	1.35
063/064	12490.03	6612290	0.19	69705.7	4574508.95	1.52
064/065	40843.77	5572470	0.73	85347.5	5466609.8	1.56
Total	**179136.2**	**84355020**	**3.98**	**246583**	**16172392.4**	**7.95**
Average	**35827.24**	**16871004**	**0.796**	**49316.5**	**3234478.48**	**1.59**

Source: Annual Report of SBI & EBL

The table exhibit that the ratios in SBI remained 1.58%, 0.38%, 1.10%, 0.19%, and 0.73% respectively over the study period. in EBL, the ratio were 2.23% , 1.29%, 1.35%, 1.52% and 1.56% respectively over the study period. mean of the ratio stood 0.80% and 1.50% respectively for SBI and EBL.

The ratio was highly fluctuating in SBI. it is due to fluctuation in net profit rather than that of total deposit. The total deposit is in increasing trend but the NPAT is very fluctuating over the study period. But in EBL, the ratio decline from the year 2060/61 to 2061/62 due to marginal increase in NPAT than total deposit. then after it showed steady rise in the ratio. the mean of the ratios showed that the profitability of the EBL seems more satisfactory regarding deposit accumulated that that of SBI.

4.1.8 Marginal Return on Equity

Besides the previously mentioned average relationship of profitability rimes marginal or mere mental relationship (ratio) can also be used as follows. this use of incremental changes will mitigate some of the infirmities. but a problem still remains." under this the ratio is marginal return on equity.

The ratio is derived, by dividing incremental returns by incremental equity as follows:

$$\text{Marginal Return on Equity} = \frac{Change\, in\, NI}{Change\, in\, Equity}$$

Higher ratio depicts the better utilization of incremental equity.

Table No. 4.7

Marginal Return on Equity of SBI & EBL

Year	SBI			EBL		
	NPAT	Net Worth	Ratio in %	NPAT	Net Worth	Ratio in %
064/065	40843.77	560346.6	7.29	85347.5	530909.87	16.08
060/061	58976.52	192708.1	30.60	25033.7	127435.67	19.64
Change	-18132.75	36763844	-0.05	60313.7	403474.02	14.95

Source: Annual Report of SBI & EBL

The table exhibits that the ratios for the period of five years from 2060/61 to 2064/65 appeared (4.93%) respectively in SBI and EBL respectively.

From the result it can be concluded that equity holders of SBI are getting negative return from the organization. The positive as well as higher ratio of EBL suggests that the equity holders are getting higher profitability than that of EBL. In words EBL has better utilized the incremental equity for the profit generation.

Overall profitability position of EBL appeared better than that of SBI, EBL seemed more successful in utilizing the resources effectively. moreover, profitability of SBI remained highly fluctuating,. It signifies the unsound profitability position of bank. Comparative line chart of profitability ratios (except marginal return on equity makes it evident that the ratios of the bank showed fluctuation through out the study period.

4.2 Operating Efficiency Measures

Under this measure two major categories of financial ratios are performed as follows:

4.2.1 Activity or Turnover or Utilization Ratios

Now a day these relation are also known as assets and investment management. "These ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. This ratio is also called turnover ratio because they indicate the speed with which asset are being converted or turned over into sales." "They not only analyze the use of the total resources of the firm but also the use of components of total assets."

These ratios all involve comparisons between the level of sales and the investment in various assets accounts.

Various activity ratios are used to predict the effectiveness of assets utilizations. some selected ratios for this research cab be illustrated as follows:

a) loans and advances to Total Deposit ratio

b) Loans and advances to Fixed Deposit ratio

c) Loans and advances to Saving Deposit ratio

d) Investment to Total Deposit ratio

e) Performing Assets to Total Assets ratio

f) performing Assets to Total Assets ratio.

g) Performing Assets to Total Debt ratio.

4.2.2 Loans and advances to total deposit ratio

This ratio assesses to what extent the banks are able to utilize the depositor's fund to earn profit by providing loans and advances. In other word how quickly total collected deposits are converted into loans and advances given to the client to earn income. It is computed by dividing total amounts of loans and advance by total deposited funds. Formula cab be written as:

$$\text{Loans and Advances to Total Deposits} = \frac{Loan\, and\ Advance}{Total\ Deposit}$$

Table No. 4.8

Loan & Advance to Total Deposit Ratio of SBI & EBL

Year	SBI			EBL		
	Loan & Advance	Total Deposit	Ratio in %	Loan & Advance	Total Deposit	Ratio in %
060/061	2363559.2	3744506.86	63.1	871677.98	1124903.1	77.49
061/062	2963032.3	4380018.84	67.7	1364884.2	1948946.6	70.03
062/063	3559409.7	4535734.17	78.5	2270179.7	3057424	74.25
063/064	4188414.2	6612290.00	63.3	3005757.9	4574509	65.71
064/065	4299249.3	5572470.02	77.2	3948478	5466609.8	72.32
Total	**17373665**	**24845019.9**	**350**	**11460978**	**16172392**	**359.8**
Average	**3474733**	**4969003.98**	**69.9**	**2292196**	**3234478**	**71.96**

Source: Annual Report of SBI & EBL

As shown by the table, the ratios of SBI appeared 63.12%, 67.65%, 78.47%, 63.44%, and 77.15% respectively for the study period. In EBL, it appeared 77.49%, 70.03%, 74.25%, 65.71% and 72.23% respectively for the study period. Mean of the ratio stood 69.95% and 71.94% for SBI and EBL respectively.

The ratios in SBI showed increasing trend there after, but the ratio showed highly fluctuation in period and showed fluctuating trend there after. But the ratio showed highly fluctuation in the case of EBL. Mean ratio is marginally higher in EBL than that of SBI. It signifies that EBL is successful in utilizing the depositors fund to earn profit by providing loans and advances than SBI.

4.2.3 Loans and advances to fixed deposit ratio :

This ratio tries to seek the number of times the fund (fixed deposit) is used in loans and advances to generate high earnings against fixed deposit that are high interest bearing obligation where as loans and advances are the major source of investment to generate income for commercial banks.

This ratio is determined by dividing total amounts of loans and advances by total amount of fixed deposits as.

$$\text{Loans and advances to fixed deposits ratio} = \frac{\textit{Loan and Advance}}{\textit{Fixed Deposit}}$$

Lower ratio indicates that firm has not been properly unlizing the fixed deposit and vice versa.

Table No. 4.9

Loan & Advance to Fixed Deposit Ratio of SBI & EBL

Year	SBI			EBL		
	Loan & Advance	Fixed Deposit	Ratio in %	Loan & Advance	Fixed Deposit	Ratio in %
060/061	2363559.15	2383622.60	99.16	871677.98	721378.91	120.83
061/062	2963032.29	2100218.55	141.08	1364884.23	1132082.54	120.56
062/063	3559409.68	2420298.45	147.06	2270179.65	1478888.55	153.51
063/064	4188414.20	2929350.60	142.98	3005757.91	2284638.28	131.56
064/065	4299249.27	3132677.40	137.24	3948478.04	2711583.67	145.62
Total	**17373664.59**	**12966167.60**	**667.52**	**11460977.81**	**8328571.95**	**672.08**
Average	**3474732.92**	**2593233.52**	**133.50**	**2292195.56**	**1665714.39**	**134.42**

Source: Annual Report of SBI & EBL

The table depicts that the ratio in SBI for the period beginning from 2054/55 to 2058/59 remained 99.16%, 141.08%, 147.06%, 142.98% and 137.24% respectively. Accordingly the ratios for EBL stood 120.83%, 120.56%, 153.51%, 13.56% and 145.62% over the study period. The mean of the ratio stood 133.51% and 54.42% for SBI and EBL respectively.

The ratios in SBI showed increasing trend up to the third year and declining for the rest periods. The ratios show fluctuation in the case of EBL. It ran get between 12.56% in the second year and 153.51% in the third year there is marginal difference. Both banks have properly utilized this high interest bearing fixed deposit for the income generation.

4.2.4 Loan and advances to saving deposit ratio.

This ratio depicts how efficiently the saving deposits are used for income generations. In other words, this ratio indicate how many times the short - term and low interest being saving deposits are used in loans and advances. It is derived by dividing the total amount loans and advances by the total amounts of loans and advances by the total amount of saving deposits as follows:

$$\text{Loans and Advances to Saving Deposit} = \frac{Loan\,and\,Advance}{Saving\,Deposit}$$

High ratio indicates greater utilization of the saving deposits in advancing loans.

Table No. 4.10

Loan & Advance to Saving Deposit Ratio of SBI & EBL

Year	SBI			EBL		
	Loan & Advance	Saving Deposit	Ratio in %	Loan & Advance	Saving Deposit	Ratio in %
060/061	2363559.15	527237.23	448.29	87166779.98	217839.8	400.15
061/062	2963032.29	786711.24	376.64	1364884.23	448001.5	304.66
062/063	3559409.68	902758.6	394.28	2270179.65	891747.92	254.58
063/064	4188414.2	1060145.99	395.08	3005757.91	1384057.64	217.17
064/065	4299249.27	1274694.69	337.28	3948478.04	1735372.31	227.53
Total	**17373664.59**	**4551547.75**	**1951.57**	**97756079.81**	**4677019.17**	**1404.09**
Average	**3474732.92**	**910309.55**	**390.31**	**19551215.96**	**935403.83**	**280.82**

Source: Annual Report of SBI & EBL

The tables displays the ratios in SBI stood 448.29%, 376.64%, 394.28%, 395.08% and 337.28% respectively for the study period. In EBL it stood 400.15% , 3,4.66%, 254.58%, 217.17% and 227.53% respectively for the study period. Mean of the ratio stood 390.31% and 280.82% for SBI and EBL respectively.

The ratio depicted fluctuating trend in SBI. Where as in EBL. It showed decreasing trend up to the fourth year and increased in the final year of the study period. Significant higher mean ratio of SBI suggests that the bank has more successfully utilized the short term interest bearing saving deposits in form of loans and advances. The ratio showed the better turnover position on SBI than the EBL.

4.2.5 Investment to Total Deposits Ratio

The ratio derived by dividing investment by the amount of the total deposit in the bank.

$$\text{Investment to total deposit ratio} = \frac{\textit{Investment}}{\textit{Total Deposit}}$$

Investment comprises investment in HMG'S treasury bills, development bonds company shares and other type of investment.

The ratio shows the efficiency of mobilization of the major resources of the bank. High ratio indicates managerial efficiency regarding the utilization of deposits. When low ratio is the result of less efficiency in use of funds.

Table No. 4.11

Total Investment to Total Deposit Ratio of SBI & EBL

Year	SBI			EBL		
	Total Investment	Total Deposit	Ratio in %	Investment	Total Deposit	Ratio in %
060/061	681589.41	3744506.86	18.2	217954.88	1124903.12	19.38
061/062	202578.3	4380018.84	4.63	283079.2	1948946.58	14.52
062/063	321793.78	4535734.17	7.09	670462.83	3057423.95	21.93
063/064	763631.65	6612290	11.55	1141801.8	4574508.95	24.96
064/065	599055.94	5572470.02	10.75	1779166.8	5466609.8	32.55
Total	**2568649.08**	**24845019.89**	**52.22**	**4092465.51**	**16172392.40**	**113.34**
Average	**513729.82**	**4969003.98**	**10.44**	**818493.10**	**3234478.48**	**22.67**

Source: Annual Report of SBI & EBL

The table exhibits that the ratio of SBI remained 18.20%, 4.63%, 7.09%, 11.55%, and 10.75% respectively for the review period. Mean of the ratio stood 10.44% accordingly, ratio of EBL appeared 19.38%, 14.52%, 21.93%, 24.96%, and 32.55% in the corresponding year. Mean of the ratios appeared 22.67%.

The ratio showed fluctuating pattern in SBI. It remained least in the second year i.e. 4.63% and increased in next two years. In EBL, it dropped to 14.52% in the second year from 19.38% in the beginning. After this decline, it showed increasing trend from third year to the fifth year of the study period. Remarkably, higher mean ratio of EBL signifies that EBL has more successfully allocated its deposits in vestment portfolio. Conversely, SBI has given less importance in this issue. In other word, it shows the efficiency of EBL in mobilizing the major resources of the bank.

4.2.6 Performing Assets to Total Assets Ratio

This ratio measures the percentage of the assets funded for income generation. The ratio is calculated by dividing performing assets by total assets as:

$$\text{Performing assets to assets ratio} = \frac{\textit{Performing Assets}}{\textit{Total Assets}}$$

Performing assets include those assets, which are invested for income generating purpose. These consist of loans, advances, bills purchase and discounted, investments and money at call or short notice.

High ratio indicates greater utilization of assts and hence sound profitability position.

Table No. 4.12

Performing Assets to Total Assets Ratio of SBI & EBL

Year	SBI			EBL		
	Performing Assets	Total Assets	Ratio in %	Performing Assets	Total Assets	Ratio in %
060/061	3045148.56	4122575.7	73.87	1089632.86	1419981.95	76.74
061/062	3165610.59	4812000.97	65.79	1647963.43	2293136.58	71.87
062/063	3881203.46	516416.02	75.15	2940642.48	3417850.74	86.04
063/064	4952045.8	7385280.31	67.05	4147559.71	5218677.34	79.48
064/065	4898305.21	7021141.15	69.77	5727644.84	6607170.72	86.69
Total	**19942313.62**	**23857414.15**	**351.63**	**15553443.32**	**18956817.33**	**400.82**
Average	**3988462.72**	**4771482.83**	**70.33**	**3110688.66**	**3791363.47**	**80.16**

Source: Annual Report of SBI & EBL

As revealed by the table, the ratios in SBI were 73.87%, 65.79%, 75.15%, 67.05%, and 69.77% for the respective years of review period. In the same manner,, ratios were 76.44%, 71.87%, 86.04%, 79.84% and 86.69% from the year 2060/61 to 2064/65 the mean of the ratios stood 70.32% and 80.16% for SBI and EBL respectively.

The ratios in SBI depicted fluctuating trend throughout the review period. In similar way the ratios in EBL also showed fluctuating trend throughout the review period, mean of the ratio appeared greater in EBL than in SBI that signifies the more successful investment decision of the assets in profitable (income generating) sector.

4.2.7 Performing Assets to Total Debt Ratio:

The ratio shows the pattern of use of the fund collected from the outsiders. It is calculated as:

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

High ratio represents the success of bank in utilization of creditors "fund" in productive areas where as low ratio symbolized the idleness of the cost bearing resource.

Table No. 4.13

Performing Assets to Total Debt Ratio of SBI & EBL

Year	SBI			EBL		
	Performing Assets	**Total Debt**	**Ratio in %**	**Performing Assets**	**Total Debt**	**Ratio in %**
060/061	3045148.56	2910859.84	104.61	1089632.86	956496.61	113.92
061/062	3165610.59	2886929.8	109.65	1647963.43	1677375.08	98.25
062/063	3881203.46	3515185.98	110.41	2940642.48	2697260.04	109.02
063/064	4952045.8	4188805.68	118.22	4147559.71	4104434033	101.05
064/065	4898305.21	4433706.91	110.48	5727644.84	4892453.4	117.07
Total	**19942313.62**	**17935488.21**	**553.37**	**15553443.32**	**4114657618.13**	**539.31**
Average	**3988462.72**	**3587097.64**	**110.67**	**3110688.66**	**822931523.63**	**107.86**

Source: Annual Report of SBI & EBL

The table exhibits that 104.61%, 109.65%, 110.41%, 118.22%, and 110.48% remained the ratios for SBI through out the review period. The ratios stood 113.92%, 98.25%, 109.02%, 101.05% and 117.07% for the respective year from 2060/61 to 2064/65 mean of the ratios stood 110.68% and 107.86% for SBI and EBL respectively.

The ratios in SBI depicted increasing trend throughout the review period except decline in the final year of the study i.e. 2064/65. The ratios in EBL showed fluctuating trend throughout the review period. But, finally, the ratio for both banks remained very close to each other. Mean of the ratio came greater SBI. This means SBI has been more successfully in utilizing the cost bearing debt in profitable sectors. It gained higher rank for the beneficial use of outsider's fund.

4.3 Cost Effectiveness Measure/Ratios

The cost efficient operation of a firm management should focus their critical eyes upon the two main areas. one of them is concerned with the well management of investment and another one is to control cost effectively. The ratio is most important since this ratio measures how individual elements of costs are controlled. Some major ratios regarding commercial banking sectors under this ratio can be examined as follows.

a) Personal expenses to total income ratio

b) Office operation expenses to total operating income ratio

4.3.1 Personnel Expenses to Total Income Ratio

This ratio measured as total personnel expenses divided by total income it is of interest to determine company policies in another important aspect of managing a company's personnel relationship. Calculated is drawn by using the formula as:

$$\text{Personnel expenses to total income} = \frac{Personnel\ Expenses}{Total\ Income}$$

In the ratio personnel expenses includes expenses related with personnel as salary and allowance, training expenses, uniforms and liveries, contribution to provident fund etc. since this ratio represent the percentage expenses made to personnel out of the firm's. Total income they desire high ratio is unfavorable to the bank through it function as catalyst for employee's working spirit.

Table No. 4.14

Personnel Expenses to Total Income Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	Personnel Expenses	Total Income	Ratio in %	Personnel Expenses	Total Income	Ratio in %
060/061	10231.33	415929.6	2.46	7689.51	139247.6	5.52
061/062	14123.53	452415.33	3.12	13389	219457.53	6.1
062/063	17915.02	495286.2	3.62	18632.08	327241.22	5.69
063/064	23533.52	505229.16	4.66	25999.88	465512.65	5.59
064/065	26647.69	508372.72	5.24	32186.82	540931.13	5.95
Total	**92451.09**	**2377233.01**	**19.10**	**97897.29**	**1692390.13**	**28.85**
Average	**18490.22**	**475446.60**	**3.82**	**19579.46**	**338478.03**	**5.77**

Source: Annual Report of SBI & EBL

In the table shows that the ratios in SBI appeared 2.40%, 3.12%, 3.62%, 4.66%, and 5.24% correspondingly from the year 2060/61 to 2064/65. where as ratios for EBL for the same period were 5.52%, 6.10%, 5.69%, 5.59% and 5.95% respectively. Mean of the ratios remained 3.82% and 5.77% in SBI and EBL respectively.

Over the study period ratios in SBI depicted increasing lend. It ranged from 2.46%, in the year 2060/61 to 5.24% in the year 2064/65. but in EBL showed fluctuating trend. The ratio reached to 6.10%from 5.52% in the second year. The review period but decreased in third year and remained 5.69%. it decreased slightly in the fourth year and increased in the last year of the study period. Mean ratio appeared higher in EBL. From the result conclusion can be drawn that EBL has spent large portion of increase for personnel. From the other side. It seems more satisfactory for the employees and success of the organization to contract efficient manpower from outside and utilize their talent. It might have maintained higher ratio to build the well employee-management relationship. Reduce the employees absenteeism and turnover.

4.3.2 Office Operating Expenses to Total Operating Income Ratio

The ratio simply derived by dividing total office operating expenses by total operating income. The ratio can be presented as:

$$\text{OOE to TOI Ratio} = \frac{Office\,Operating\,Expenses}{Total\,Operating\,Income}$$

The ratio depicts ratio of office operating expenses regarding total operating income that affects the further cost decision of the firm. High ratio is indicator of higher level of operating expenses. So, low ratio is favorable to the bank, as it reflects the operational efficiency.

Table No. 4.15

Office Operating Expenses to Total Operating Income Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	OOE	TOI	Ratio in %	OOE	TOI	Ratio in %
060/061	40234.46	415929.6	9.67	17481.67	136688.93	12.79
061/062	44750.13	452415.33	9.89	29145.77	215495.52	13.53
062/063	49145.46	495286.2	9.92	42099.67	325775.8	12.92
063/064	59360.82	505229.16	11.75	50451.37	464117.62	10.87
064/065	60750.35	508372.72	11.95	75426.19	539790.51	13.97
Total	**254241.22**	**2377233.01**	**53.18**	**214604.67**	**1681868.38**	**64.08**
Average	**50848.24**	**475446.60**	**10.64**	**42920.93**	**336373.68**	**12.82**

Source: Annual Report of SBI & EBL

The table demonstrates that the ratio in SBI remained 9.67%, 9.89%, 9.92%, 11.75%, and 11.95% in the respective year of review period.

Mean of the ratios was 10.64% whereas ratios of EBL for the same period were 12.79%, 13.53%, 12.92%, 10.87% and 13.97% respectively. Mean of the ratios stood 12.82%.

The ratios in SBI showed increasing trend. It ranged from 9.67% in the first year of the review period to 13.97% in the last year of the review period. The ratios in EBL showed fluctuating trend. There was slight decrease in the ratio in the year 2063/64. The ratio remained in 10.87%. which lowest of the review period. In the year 2063/64 Lower mean ratio of SBI suggested that the bank be in much better condition regarding the operational efficiency that EBL.

4.4 Financial Policy Measures

Financial policy measures relate to strategic decision as well as investment management and cost management. Under this two major types are analyzed.

4.4.1 Leverage or Capital Structure Ratios

The Long term creditors to judge the long term financial position of the firm use these ratios. These ratios indicates the proportion of funds contributed by owners as compared to creditors. That's why financial risk and the firms ability of using debt for the benefits of shareholders can be measured by calculating these ratios.

In practice, leverage is approached in two ways, one approach examines balance sheet ratios and determines the extent to which borrowed funds have been used to finance the firm. The other approach measures the risk of debt by income statement ratios designed to determine the number of times fixed charges are covered by operating profs. These sets of ratios are complementary and most analysts examine both.

Some of the ratios under this classifications can be presented as follows.

a) Total Debt Ratio
b) Leverage Factor
c) Coverage Ratio

4.4.1.1 Total Debt Ratio

The ratio of total debt to total assets is simply known as debt ratio. Determines the proportion of amount financed by creditors to the total fund. This ratio is used to analyzed the long-term solvency i.e. ability to pay all the liabilities of the firm. Ratio is as follows:

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

Creditors prefer moderate debt ratio. In contrast owners enjoy high earning by maintaining their control over the organization in case of high leverage.

Table No. 4.16

Total Debt Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	Total Debt	Total Assets	Ratio in %	Total Debt	Total Assets	Ratio in %
060/061	2910859.84	4122575.7	70.61	956496.61	1419871.95	67.36
061/062	2886929.8	4812001	59.99	1677375.08	2293136.58	73.15
062/063	3515185.98	5164516	68.02	2697260.04	3417850.74	78.92
063/064	4188805.68	7385280.3	56.72	4104434.33	5218677.34	78.65
064/065	4433706.91	7021141.4	63.15	4892453.4	6607170.72	74.05
Total	**17935488.21**	**28505514.41**	**318.49**	**14328019.46**	**18956707.33**	**372.13**
Average	**3587097.64**	**5701102.88**	**63.70**	**2865603.89**	**3791341.47**	**74.43**

Source: Annual Report of SBI & EBL

As presented in above table, the ratio in SBI from the year 2060/61 to 2064/65 appeared 70.61%, 59.99%, 68.02, 56.72 and 63.15% respectively. Mean of the ratio stood 63.71%. in the same way,, these remained 67.36%,73.15%, 78.92%, 78.65% and 74.05% in EBL respectively. Mean of the ratio stood 74.43%.

The ratios showed fluctuating trend in SBI but increasing trend in EBL up to the fourth year but slightly decreased in the final year of the study period. Mean of the ratios appeared grater in EBL as compared to that in SBI, which signifies that former followed more aggressive policy in raising the capital. One other hand, leverage position in SBI seems less risky.

4.4.1.2 Leverage Factor

Leverage factor referred to the ratio of total assets to share holder's equity. This ratio measures the extent to which the shareholder's equity [SHE] invested in magnified by the use of debt in financing total assets. Shareholder's earning and debt (both interest bearing and non-interest bearing) are the two major sources of financing total assets. So, this ratio is computed as follows:

$$\text{Leverage Factor} = \frac{Total\ Assets}{SHE\,(NW)}$$

Table No. 4.17

Leverage Factor of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	Total Assets	Net Worth	Ratio in %	Total Assets	Net Worth	Ratio in %
060/061	4122575.7	192708.12	21.39	1419871.95	127435.67	11.41
061/062	4812000.97	196976.05	24.43	2293136.58	145157.2	15.8
062/063	5164516.02	224942.21	22.96	3417850.74	202843.8	16.85
063/064	7385280.31	238544.7	30.96	5218677.34	319393.04	16.34
064/065	7021141.41	560346.5	12.53	6607170.72	530909.87	12.44
Total	**28505514.41**	**1413517.58**	**112.27**	**18956707.33**	**1325739.58**	**72.84**
Average	**5701102.88**	**282703.52**	**22.45**	**3791341.47**	**265147.92**	**14.57**

Source: Annual Report of SBI & EBL

As shown by the table, 21.39%,24.43%, 22.96%, 30.96%, and 12.53%were the ratio. In EBL, this ratio appeared 11.14%, 15.80%, 16.85%, 16.34% and 12.44% respectively. Mean of the ratios appeared 22.45%, and 14.51% for SBI and EBL respectively.

The ratios in SBI showed fluctuating trend. The ratio drastically decreased to 12.53% from 30.96% in the last year of the study period. The ratio in EBL showed increasing trend up to the third year but marginal decrease in the fourth year. But the ratio decrease sharply in the final year of the study period. SBI seems ahead of EBL in raising capital through debt as per the higher mean ratio.

4.4.1.3 Coverage Ratio

Coverage ratios are designed to relate the financial charges of a firm to its ability to service them. [45] It measures the relationship between what is normally available from operation of the banks and the claim of the outsiders. Under this following ratios are calculated.

4.4.1.3.1 Interest Coverage Ratio

Interest coverage ratio also called times interest earned, is examined by dividing earning before interest and taxes by the interest charges. Since the income taxes are computed after deduction of interest expenses EBIT is used in the formula to calculate this ratio and there is no effect of income taxes ability of the firm to pay current interest.

This ratio predicts the extent to which the firm's earning can be decline with out inability to meet annual interest costs. Ratio can be shown as follows:

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

"A higher ratio is desirable; but too much high ratio indicates that the firm is very conservative in using debt, and that is not using credit to the best advantage of shareholders. A lower ratio indicates excessive use of debt or in efficient operations.

Table No. 4.18

Interest Coverage Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	EBIT	Interest Charge	Ratio in %	EBIT	Interest Charge	Ratio in %
060/061	324278.84	240745.68	1.35	99938.51	74721.13	1.34
061/062	335810.49	310794.98	1.08	157395.27	118702.2	1.33
062/063	369805.53	281657.91	1.31	239148.94	178371.62	1.34
063/064	322111.02	271798.13	1.19	338764.16	236707.6	1.43
064/065	345452.15	288579.31	1.2	384435.46	257051.21	1.5
Total	**1697458.03**	**1393576.01**	**6.13**	**1219682.34**	**865553.76**	**6.94**
Average	**339491.61**	**278715.20**	**1.23**	**243936.47**	**173110.75**	**1.39**

Source: Annual Report of SBI & EBL

The table highlight that the ratios appeared 1.35, 1.08, 1.31, 1.91 and 1.20 respectively from the year 2060/61 to 2064/65 in SBI. Mean of the ratios was 1.22. these remained 1.34, 1.33, 1.34, 1.43 and 1.50 for the same period. Mean of the ratio was calculated as 1.39.

The ratios in SBI showed fluctuating trend. The ratio was sighs for the year 2056/57 which was 1.31. The lowest ratio was in the year 2061/62 which was 1.08, which signify that the fund available for the payment of interest remained sufficient, however, the margin was not satisfactory. In EBL the ratio was comment up to the third year but showed slightly increasing trend from fourth year of the study period. Higher mean ratio of EBL is symbol of better debt serving capacity of the bank as well as possibility of declining its profit in fewer amounts after matting the interest cost.

4.4.1.3.2 Provision for Possible Losses to Loans and Advances:

Coverage of possible losses on loans and advances is measured by this ratio. This ratio is computed by dividing the amount allocated for possible losses by the amount of loans and advances as:

$$\text{Losses to Loans \& Advances} = \frac{Provision\ for\ Possible\ Losses}{Loans\ \&\ Advance}$$

Table No. 4.19

Provision for Possible Losses to Loans and Advances Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	Prov. for PL	**Loan & Advance**	**Ratio in %**	**Prov. for PL**	**Loan & Advance**	**Ratio in %**
060/061	31659.24	2363559.2	1.34	5720.59	871677.98	0.66
061/062	54521.05	2963032.3	1.84	8333.78	1364884.23	0.61
062/063	48625.92	3559409.7	1.37	15562.16	2270179.65	0.69
063/064	94633.45	4188414.2	2.26	33501.76	3005757.9	1.11
064/065	67550.89	4299249.3	1.57	34728.85	3948478.04	0.88
Total	**296990.55**	**17373664.59**	**8.38**	**97847.14**	**11460977.80**	**3.95**
Average	**59398.11**	**3474732.92**	**1.68**	**19569.43**	**2292195.56**	**0.79**

Source: Annual Report of SBI & EBL

The above table reveals that the ratio of SBI were 1.34%, 1.84%, 1.37%, 2.26%, and 1.57% respectively through the study period. In the same manner, 0.66%, 0.61%, 0.69%, 1.11% and 0.88% were ratios of EBL. Mean of the ratios stood 1.68% and 0.79% for SBI and EBL respectively.

The ratio of both the bank followed fluctuating trend over the period. The ratios was highest in the year 2062/63 in SBI as well as in EBL. Average ratio is very high in SBI than EBL which means SBI has granted greater portion of its loans in riskier sector than that of EBL.

4.5 Liquidity Ratio

Liquidity ratio measures the firms ability to meet their current obligation by making comparisons between short-term obligation and the short-term resource available.

Every firm should be able to meet their obligation as they become due especially in case of banks they should ensure that they do not suffer from lack of liquidity position because both the conditions of liquidity are unfavourable. Otherwise their failure to meet obligation lead to poor credit worthiness and loss of creditors confidence.

Banks can experience lack of liquidity where cash out flows (due to deposit withdraws, loan and advances etc.) exceed cash inflow new deposits, loan repayments, interest, commission etc. they can resolve any can deficiency be either creating additional liabilities or by selling assets.

Major liquidity identifying ratio used in this study are:

1. Cash & Bank Balance to Total Deposit Ratio
2. Fixed Deposit to Total Deposit Ratio
3. NRB Balance to Current and Saving Deposit Ratio
4. NRB Balance to Fixed Deposit Ratio

4.5.1 Cash & Bank Balance to Total Deposit Ratio

Table No. 4.20

Cash & Bank Balance to Total Deposit Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	Cash & BB	TD Exl. FD	Ratio in %	Cash & BB	TD Exl. FD	Ratio in %
060/061	761558.06	1360884.3	55.96	255150.35	403524.21	63.23
061/062	1357792.2	2279800.3	59.56	460719.04	816864.04	56.4
062/063	890018.85	2115435.7	42.07	278605.57	1578535.4	17.65
063/064	1945141.6	3682939.4	52.81	834993.54	2289870.7	36.46
064/065	1619962	2439792.6	66.4	592757.45	2755026.1	21.52
Total	**6574472.71**	**11878852.27**	**276.80**	**2422225.95**	**7843820.45**	**195.26**
Average	**1314894.54**	**2375770.45**	**55.36**	**484445.19**	**1568764.09**	**39.05**

Source: Annual Report of SBI & EBL

The table shows that the ratios remained 55.96%, 59.56%, 42.07%, 52.81% and 66.40% for the respective year of the study period. Mean of the ratio appeared 55.26%. In similar way, these appeared 63.23%, 56.04%, 17.65%, 36.46%, and 21.52% respectively in EBL for same period. Mean of the ratio was calculated 39.05%.

The ratios in SBI showed fluctuating trend. The highest ratio was in the final year of the study period. Which is 66.40% trend up to the third year. It increase in the fourth year and reached to 36.46% and again decreased in the final year mean ratio of SBI appeared greater than that of EBL. It indicates the better liquidity position of SBI.

4.5.2 Fixed Deposit to Total Deposit Ratio:

Fixed deposit is the long term interest bearing deposit. Of course, it is high interest paid liabilities but increasing fixed deposit prove to be an additional advantages if utilized properly by granting long term loans to their potential clients at higher interest rate. This ratio is tested to determine the proportion of fixed deposit out of the total deposit. The ratio is computed by dividing fixed deposit by total deposit is given below:

$$\text{Fixed deposit to total deposit ratio} = \frac{Fixed\ Deposit}{Total\ Deposit}$$

The higher the ratio the more the interest bearing income and lowers the proportion of current /short term deposits and vice versa.

Table No. 4.21

Fixed Deposit to Total Deposit Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	Fixed Deposit	Total Deposit	Ratio in %	Fixed Deposit	Total Deposit	Ratio in %
060/061	2383622.6	3744506.9	63.66	721378.91	1124903.12	64.13
061/062	2100218.55	4380018.8	47.95	1132082.54	1948946.58	58.09
062/063	2420298.45	4535374.2	53.36	1478888.55	3057423.95	48.37
063/064	2929350.6	6612290	44.3	2284638.28	4574508.95	49.94
064/065	31322677.4	5572470.2	56.22	2711583.67	5466609.8	49.6
Total	**41156167.60**	**24844660.06**	**265.49**	**8328571.95**	**16172392.40**	**270.13**
Average	**8231233.52**	**4968932.01**	**53.10**	**1665714.39**	**3234478.48**	**54.03**

Source: Annual Report of SBI & EBL

The table shows ratios in SBI for the respective years of the review period stood 63.66%, 47.95%, 53.96%, 44.30%, and 56.22%. Mean of the ratios appeared 53.10% for EBL. These remained 64.13%, 58.09%, , 48.37%, 49.94% and 49.60% respectively. Mean of the ratios was 54.03%.

The ratios for SBI showed fluctuating trend. In the first year the ratio was higher than other years of the study period. In EBL the ratios showed decreasing trend up till the third year and slightly rose in the fourth and fifth year of the study period. Mean of the ratio remained slightly grater in EBL than SBI. From the result , it is clear that in both banks FD have occupied grater portion of total deposit. Both banks can experience high profit by investing the fund in long term loans since the fund available from fixed deposit is higher. If the investment decision is not taken properly they may face problem of high interest charge for the fixed deposit.

4.5.3 NRB Balance to Current and Saving Deposit Ratio

Commercial banks are required to hold certain portion of current and saving deposit in Nepal Rastra Bank account. It is to ensure the smooth functioning and sound liquidity position of the bank. The ratio is computed by dividing the balance held with Nepal Rastra Bank by current and saving deposits including call and other deposits.

NRB balance to Current Saving Deposit Ratio = $\frac{NRB\,Balance}{Current\,Saving\,Deposit}$

As per the directive of NRB, the required ratio is 7%. Therefore the ratio measures whether the banks is following the directives of NRB or not.

Table No. 4.22

NRB Balance to Current and Saving Deposit Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	NRB Balance	C & S Deposit	Ratio in %	NRB Balance	C & S Deposit	Ratio in %
060/061	574125.66	1360884.3	42.19	121474.02	403524.21	30.1
061/062	693064.21	2279800.3	30.4	168150.35	816864.04	20.58
062/063	371866.85	2115435.7	17.58	130520.8	1578535.4	8.27
063/064	302752.29	3682939.4	8.22	385657.22	2289870.7	16.34
064/065	1177463.61	2439792.6	48.26	357700.22	2755026.1	12.98
Total	**3119272.62**	**11878852.27**	**146.65**	**1163502.61**	**7843820.45**	**88.27**
Average	**623854.52**	**2375770.45**	**29.33**	**232700.52**	**1568764.09**	**17.65**

Source: Annual Report of SBI & EBL

As reveled by the table, the ratio in SBI remained 42.19%, 30.40%, 17.58%, 8.22% and 48.26% in the respectively years from 2060/61 to 2064/65. Mean of the ratios was 29.33%. In EBL , these stood 30.10%, 20.58%, 8.27%, 16.48% and 12.98% for the same period correspondingly. Mean of the ratios appeared 17.76%.

The trend of the ratios showed declining up to the fourth year of the study period in SBI. It rose drastically to 48.26% from 8.22% in the final year of the study period. In EBL the ratio decline up to the third year. It inclined to 16.84% in the fourth year and banks lay at significant level above the standard. Comparatively it is grater in SBI which indicates the better liquidity position of it than EBL. But the higher cash balance in NRB return nothing and it may effect the profitability of the bank adversely.

4.5.4 NRB Balance to Fixed Deposit Ratio

This ratio shows the percentage of amount deposited by the bank in NRB as compared to the fixed deposit. The ratio is achieved with the relationship between the NRB balance and fixed deposit as:

$$\text{NRB balance to fixed deposit ratio} = \frac{NRB\,Balance}{Fixed\,Deposit}$$

According to the directive of NRB, the ratio should be maintained at 4.5%. hence, the ratio so calculated finds wheatear the banks has obeyed the direction of central bank or not.

Table No. 4.23

NRB Balance to Fixed Deposit Ratio of SBI & EBL

Rs. in '000

Year	SBI			EBL		
	NRB Balance	Fixed Deposit	Ratio in %	NRB Balance	Fixed Deposit	Ratio in %
060/061	574125.66	238362	24.09	121474.02	721378.9	16.84
061/062	693064.21	2100218.6	33	168150.35	1132082.54	14.85
062/063	371866.85	2420298.5	15.36	130520.8	1478888.55	8.33
063/064	302752.29	292938.56	10.34	385657.22	228463.28	16.88
064/065	1177463.61	313267.67	37.59	357700.22	2711583.67	13.19
Total	**3119272.62**	**5365085.23**	**120.38**	**1163502.61**	**6272396.94**	**70.09**
Average	**623854.52**	**1073017.05**	**24.08**	**232700.52**	**1254479.39**	**14.02**

Source: Annual Report of SBI & EBL

The table shows the ratio of SBI were found 24.09%, 33.00%, 15.36%, 10.34%, and 37.59% respectively form the year 2060/61 to 2064/65. Similarly ratios in EBL appeared 16.48%, 14.85%, 8.33%, 16.88%, and 13.19% respectively. Mean of the ratios were calculated as 24.07% and 14.12% respectively for SBI and EBL.

The ratio in SBI showed incensement in the second year and than decrease up to the third year and reached to 10.34%. But it inclined in the last year of the study period and reached to 37.59%. The ratio are very fluctuating in SBI. The ratios in EBL are in it again decreased in fifth year and reached to 13.19%. Mean ratios of SBI remained higher than that of EBL that reveals the thicker safety margin against the F.D from the customer point of view. Form the bank side. Idleness of high interest bearing deposit in such a great extent my have adversely affected the profitability of the bank.

4.6 Income and Expenditure Analysis

The analysis depicts the major sources of income and expenditure of any organization. The analysis guides the analyst to conclude the areas to be focused for investment and the possibilities for control over expenses. It covers the following.

4.6.1 Income Analysis

Commercial banks generate from the investment made in various sectors and service provided by them. The banks, being service oriented organization do not produce physical goods. They produce loans and advances and innovations and sell the same. In the course of carrying out their function. They receive income from various sources. Which have been split up into the following major headings:

A. Interest Income
B. Commission and discount
C. Exchange income
D. Other income

Table No. 4.24

Income Analysis for SBI (*Rs. in '000)*

FY / Income	2060/61	2061/62	2062/63	2063/64	2064/65
Interest Income	365030.3	403488.62	437316	444558.76	399631.3
%	87.76	89.19	88.30	87.99	78.61
Comm. & Discount	22073.95	27199.76	34175	32401.61	36579.41
%	5.31	6.01	6.90	6.41	7.20
Foreign Exchange	7827.53	1795.66	23795	28268.79	4253.45
%	1.88	0.40	4.80	5.60	8.37
Other income	20997.8	19931.29	0	0	29626.56
%	5.05	4.41	0.00	0.00	5.83
Total income	415929.58	452415.33	495286	505229.16	508372.72
%	100.00	100.00	100.00	100.00	100.00

Table No. 4.25

Income Analysis for EBL (*Rs. in '000)*

Income / FY	2060/61	2061/62	2062/63	2063/64	2064/65
Interest Income	104200.94	175938.56	267443	385015.94	443820.89
%	74.83	80.17	81.73	82.71	82.05
Comm. & Discount	14733.22	235661.72	25900	30556.93	36772.87
%	10.58	10.74	7.91	6.56	6.80
Foreign Exchange	2389.99	3176.47	3495.6	16501.72	45413.73
%	1.72	1.45	1.07	3.54	8.40
Other income	17923.46	16780.91	30402	33438.05	14923.43
%	12.87	7.65	9.29	7.18	2.76
Total income	139247.61	219457.66	327241	465512.64	540930.92
%	100.00	100.00	100.00	100.00	100.00

Interest Income:

Interest is the main and major resources of income for the commercial banks. They receive interest from various heads of investment title i.e. loans and advances, government securities, debentures, bonds deposits in other banks and inter bank lending.

The table shows that the interest income for SBI registered 87.76%, 89.19%, 88.30%, 87.99% and 78.61% during the study period from 2060/61 to 2064/65 respectively. Interest income ranged from 87.76% (first year) to 89.19% (second year). It showed increasing trend up to second year but decreased form then onwards and reached to 78.60% in the final year of the study period. It is also the prime source of income of EBL.

Average of the interest income appeared 86.37% and 80.30% for SBI and EBL respectively. It indicates that the average interest income coverage slightly greater proportion in SBI. It means, SBI might have focused more of its activities towards the lending and investment in government securities.

Commission and Discount:

Commission and discount includes income received as commission. Commercial banks render various types of service to their customer they provide remittance, guarantees, transfer, standing, instructions, letter of credit, purchase and discount of bill of exchange facilities along with other agency and merchant banking function for making such facilities available of the total income.

The table shows that the income as commission and discount in SBI rescored 5.31%, 6.01%, 6.90%, 6.41% and 7.20% accordingly to the study period. It ranged from 5.31%(first year) to 7.20% (final year). It revealed increasing trend except slight decrease in he fourth year of the study period.

It the same way the table shows the commission and discount earned by EBL in the respective years of the study period stood 10.58%, 10.74%, 6.56% and 6.80%. it ranged form 6.56% (fourth year) to 10.74% (second year). The ratio increase upto the second year but decreased then after and reached to 6.56% in the fourth year of the study period.

On the average, commission income remained 6.37% in SBI and 8.52% in EBL from the result. It can be concluded that commission and discount income occupied comparatively greater portion in EBL.

Foreign Exchange Income:

One of the major function of commercial banks is transaction of foreign currency. Both the banks are authorized by NRB to deals with foreign currencies. Income under this heading encompasses not only gain from sales of foreign currency, but also gain from revaluation of our currency i.e. foreign exchange fluctuation income also.

From the table the income of SBI from foreign exchange appeared 1.88%, 0.40%, 4.80%, 5.60%, and 8.37% respectively for the study period. The ratio decreased in the second year reached to 0.40% but showed increasing trend from then onwards the ratio ranged from 0.40% but showed increasing trend from then onwards. The ratio ranged from 0.40% (second year) to 8.37% (final year).

In the same way, foreign exchange income appeared 1.72%, 1.45%, 1.07%, 3.54% and 8.40% for EBL in the respective year of the study period.

The ratio showed decreasing trend up to third year but increased drastically and reached to 8.40% in the final year of the study period. The ratio ranged from 1.07% to 8.40% over the study period.

Average of the income in SBI and EBL remained 4.21% and 3.23% respectively. This sources of income holds greater portion in SBI

Other income:

Other income included in any of the above heading are the components of this heading. Other income comprises various titles of income viz, revaluation gain, net income from sale of investment and assets, non-banking assets, fixed assets written back and other.

The table highlights that other income of SBI for the respective years of the study period appeared as 5.05%, 4.41% nil, and 5.83%. This income did not contribute anything in the year in 2060/61 and 2061/62. In the same way, the other income for EBL appeared 12.87%, 7.65%, 9.29%, 7.18% and 2.70% respectively during the study period. The ratio showed fluctuating trend. But the ratio sharply decreased and reached to 2.76% in the final year of the study period. This heading of income has also significantly contributed in total income of the bank.

Mean of these source of SBI and EBL was calculated 3.06% and 7.95% respectively. Higher percentage guides that this income contributes more in EBL than SBI.

4.6.2 Expenses Analysis:

Expenses are the cost incurred in course of operation of various activities. The bank needs to pay interest in deposit, borrowing and inter batch transaction. They should pay salaries and other facilities for the actual work performer i.e. team of personnel. Certain portion of their income is spent for the day to day operation. Besides all these expenses they should make provision for bonus, loans less and tax out of their total income. for the study purpose four major categories of expenses has been analyzed.

Table No. 4.26

Expenses Analysis for SBI (*Rs. in '000)*

FY / Expenses	2060/61	2061/62	2062/63	2063/64	2064/65
Interest	240745.68	310794.98	281658	271798.13	288579.31
%	80.17	83.45	78.56	75.44	75.49
Staff	10231.33	14123.53	17915	23533.52	26647.69
%	3.41	3.79	5.00	6.53	6.97
Office	40234.46	44750.13	49145	59360.52	60750.35
%	13.40	12.02	13.71	16.48	15.89
Bonus	9095.06	2779.5	9794.2	5590.32	6319.18
%	3.03	0.75	2.73	1.55	1.65
Total Expenses	300306.53	372448.14	358513	360282.49	382296.53
%	100.00	100.00	100.00	100.00	100.00

Table No. 4.27

Expenses Analysis for EBL (*Rs. in '000)*

Expenses FY	2060/61	2061/62	2062/63	2063/64	2064/65
Interest	74721.13	118702.2	178372	236707.6	257051.21
%	72.76	71.66	72.55	72.95	67.86
Staff	7689.51	13389	18632	25999.88	32186.82
%	7.49	8.08	7.58	8.01	8.0
Office	17481.87	29145.77	42100	50451.37	75426.19
%	17.02	17.59	17.12	15.55	19.91
Bonus	2801.93	4415.27	6753	11339.62	14153.81
%	2.73	2.67	2.75	3.49	3.74
Total Expenses	102694.44	1656652.24	245856	324498.47	378818.03
%	100.00	100.00	100.00	100.00	100.00

Interest Expenses:

Expenses analysis depicts that payment for both banks occupy the major proportion of operating expenses. Interest expenses are composed with interest paid on various deposits, loan and borrowings and inter branch transaction. Since transfer of the money from surplus spending units to the deficit spending units is the significant function of the commercial banks, interest generally occupies more than half of the total operation expenses.

As observed in table, the interest expenses out of the total expenses in SBI recorded 80.17%, 83.45%, 78.56%, 75.44% and 75.49% respectively during the study period. The ratio depicts the fluctuating trend over the study period. It ranged from 75.44% to 83.45%

Interest expenses from 2060/61 to 2064/65 in EBL were 72.76%, 71.66%, 72.55%, 72.95% and 67.86%. The ratio is quite constant up to the fourth year but decreased in the final year of the study period and reached to 67.86%. mean of the interest expenses appeared 78.62% and 71.56% in

SBI and EBL respectively. From the proportion it can be concluded that interest expenses covered more portions in SBI compared to that in EBL. It may be result of their succeed to attract the depositors due to higher rate of interest during the study period.

Staff Expenses:

Organization itself does nothing but their success or failure is mainly based upon their employees, efficient and well-motivated staffs are the ornaments of any organization. For all these, organization needs to make some expenses in return to the services provided by them. In this way staff expenses include all the expenses made upon their employees such as salary and allowance, training, uniform and liveries, contribution to provident fund, incentives, fringe benefits etc.

The table reveals that the staff expenses in SBI remained 3.40%, 3.79%, 5.00% respectively from the year 2060/61 and 2064/65. It shows increasing trend through out the study period. It ranged from 3.40% to 6.97%.

The staff expenses in EBL were 7.49%, 8.08%, 7.58%, 8.01% and 8.50% respectively during the study period. It showed fluctuating trend up to the third year and showed increasing trend than after. The ratio increased in the second year but decreased in the second year.

Average of the staff expenses was calculated 5.14% for SBI and 7.93% for EBL. From the point of view the staff, EBL seems attractive but SBI seems more efficient in its operations.

Office operation Expenses:

In the context of Nepalese commercial banks, office expenses occupy major portion in the composition of the total expenses. These includes those expenses incurred for the routine operation of the commercial banks, such as house rent, lighting, water/power., building, repair and maintenance, postage/telex, traveling, expenses, banks commission, board meeting fee and expenses audit fee and expenses depreciation amortization expenses for AGM etc.

The table shows that the office operation expenses covered 3.40%, 12.02%, 16.48% and 15.89% respectively during the study period in SBI. The ratio decreased in the second year but increased in the third year and fourth year of the study but again decreased in the final year. It showed fluctuating trend.

The office expenses in EBL remained 17.02%, 17.59%, 17.12%, 15.55% and 19.91% respectively during the study period the ratio appeared in quite constant proportion i.e. around 17% from first year to third year and decrease in the fourth year but increased and reached to 19.90%in the final year of the study period.

Mean of the expenses appeared 14.30% and 17.74% for SBI and EBL respectively. It reveals that SBI is more efficiently performing its operation.

Bonus Facility:

Out of the operating profit of the banks, they need to make some further provisions like provisions for staff bonus, loan losses and income tax. In this way, they distribute certain sum of the their profit to their staff as a bonus on reward for their well performances it plays vital role for motivating their employees in their work and to attract potential outsiders.

The table reveals that proportion of bonus expenses in SBI over the study period were respectively 3.03%, 0.75%, 2.73%, 1.55% and 1.65%. it showed fluctuating trend over the study period. It fall very sharply in second year and again increase in the second year EBL spent 2.73%, 2.67%, 2.75%, 3.49% and 3.74% respectively for the year 2060/61 to 2064/65 for staff bonus. It shows increasing trend during the study period except marginal decreases in the second year. The ratio remained quite constant for the first three years. According to the mean of the expenses 1.94% for SBI and 3.08% for EBL. EBL is more efficient and motivating is staff.

4.7 Least Square Linear Trend Analysis:

"Regression analysis is a mathematical measure of the average relationship between two or more variables in terms of the religion units of data."

It performed between two types of variables one independents also known as repressor or explanatory or predicts for variable and another is dependent also known as regressed or explained variable.

The line of regression is the line which gives the best estimate to the value of one variable for any specific value of the other variable. Thus the line of regression is the line of 'best fit' and is obtained by the principles of least squares.''

The line of regression of Y on X, which can be used to predict the values of Y for a given values of X. using least square method can be written as:

$$Y = a + bx$$

Where,

Y = Dependent variable

X = Independent variable

a and b are arbitrary constant.

According to the principle of the least squares. The normal equation for estimating a and b are.

$\sum y = Na - b\sum x$

$\sum xy = a\sum x + b\sum x^2$

"Thus, main purpose behind the regression analysis is to establish the regression relationship through a functional relationship between the dependent and the independent variables and then use this to predict the values for the dependent variables."

4.7.1 Least square Linear Trend of Total Deposit:

As highlighted by the annex 1, a i.e. and b i.e. slope of trend line of the total deposit in SBI remained Rs. 4968932.01 and 588819.76 thousand respectively. Total deposit of the bank shows increasing trend through the study period. Average rate of increase per year the amount of total deposit came Rs. 588819.76 thousand.

Hence, trend equation of total deposit is 4969003.80+588819.76x

From the trend equation obtained above increased total deposit for coming five years would be Rs. 5557823.56, 6146643.32, 5735463.08, 7324282.84, 7913102.60 thousand respectively.

The annex 2 depicts that a and b of total deposit in EBL appeared Rs. 3234478.40 and Rs 1130897.50 thousand respectively. During the study period total deposit showed increasing trend and was increasing at the rate 1130897.50 thousand per year.

According to the value calculated above trend equation of total deposit for EBL is Y= 3234478.40 +1130897.50x.

As per the trend equation obtained above forecasted total deposit of the banks for next five yeas would be Rs 4365375.90 96273.30, 6627170.80, 7758068.30, 8888965.80 thousand respectively.

On focusing the past trend both average and rate of increase of total deposit seems higher in EBL. Therefore total deposit EBL will increases in higher pace for coming years if past trend continues.

4.7.2 Least square trend of loans and advances:

As presented in annex 3 the value of a and b of loans and advances in SBI were Rs 3474732.80 and 509676.22 thousand respectively. Loans and advances revealed increasing trend over the review period. On an average it grew up by rs 509676.22 thousand per annum.

Hence, trend equation of the loans and advances is

Y= 3474732.80+509676.22x.

According to the trend equations loans and advances for next five years would be Rs. 3984409.02, 4494085.24, 5003761.46, 5513437.68, 6023113.90 thousands respectively. As depicted by the annex 4 a and b of loans and advances in EBL were Rs. 2292195.40 and Rs. 779447.37 thousand respectively. Loans and advances were in increasing trend through out the study period and increased with Rs 779447.37 thousand per year.

There fore, the trend equation of loans and advances is

Y= 2292195.40 + 779447.37X

On the basis of trend equation obtained above, forecasted loans and advances for the period from 2059/60 to 2063/64 in EBL are Rs.3071642.77, 3851090.14, 4630537.50, 5409984.88, 6189432.25 thousand respectively.

Between these two banks, both average loans and advances and amount of increase per year appeared higher in EBL. It means loans and advances will increases with higher rate in EBL for coming years if the past trend continues.

4.7.3 Least square linear trend of total investment:

As shown by annex 5, a and b of total investment of SBI stood Rs 513729.80 and Rs 39598.64 thousand respectively. Average rate of the increase in the amount of investment was Rs 39598.64 thousand per year.

There fore, trend equation of total investment is

Y= 513729.80+39598.64X

According to the trend equation presented above, total investment for SBI for next five years would be Rs. 553328.44, 592927.08, 632525.72,672124.36, 711723.00, thousand respectively.

As highlighted by the annex 6 Rs 818493.10 and 398114.64 thousand were calculated as values of a and b respectively in EBL. Over the review period total investment was in increasing trend and increased at the rate of Rs. 398114 thousand per year.

As per the calculated values of a and b. trend equation of total investment can be written as Y=818493.10 + 398114.64x.

Forecasted total investment in EBL for coming five years would be Rs. 216607.74, 1614722.38, 2012837.02, 2410951.66, 2809066.30 thousand respectively accordingly on the basis of the trend equation.

Total investment will increasing at higher rate in EBL at higher rate in EBL at higher than SBI if past trend continues since both the average and the rate of increment of total investment are higher.

4.7.4 Least square trend of Net Profit

As depicted by the annex 7 a and b of net profit in NSBL appeared Rs. 35827.24 and (4053.59) thousands respectively. Throughout the period of study. Net profit showed fluctuating trend. On the average net profit decreased by 4053.59 thousand per year.

There fore the trend equation of the net profit is Y= 358272, 4053.59X.

On the basis of above trend equation, forecasted net profit for coming five years would be Rs. 31773.65, 27720.06, 23666.47, 19612.81, 15559.29 thousand respectively.

As shown by the annex 8. Y intercept (a) and slope of trend line (b) of the net profit in EBL were Rs. 49316.53 and Rs. 16510.29 thousand respectively. It showed increasing trend throughout the study period. It increased by Rs. 16510.29 thousand each year.

There fore trend equation of net profit is Y= 49316.53 + 16510.29x.

As guided by the trend equation forecasted net profit for EBL for five years would be Rs. 65826.82, 82337.11, 98847.40, 115357.69, 131867.98 thousand respectively.

On comparing two banks, average net profit and rate of the increase in net profit both seemed higher in EBL. In other words, net profit will increase with higher rate in EBL for the forecasting period if the past trend continues.

4.8 Correlation Analysis :

The study of the intensity or degree of liner relationship between variables is known as zero order correlation coefficient and was developed by Karl Pearson.

The formula for computing Pearson's correlation coefficient between two random variables x and Y is as follows and is denoted by r(x,y).

$$r(x,y) = \frac{Cov(x,y)}{\sigma x \, \sigma y}$$

It can be calculated as mentioned below by using direct method.

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

Correlation coefficient cannot exceed unity numerically. It always lies between -1 and +1, the correlation is perfect and positive and if r=-1, correlation is perfect and negative. [50]

Probable Error of Correlation coefficient:

The probable error determines the reliability of an observed correlation coefficient it is obtained by:

$$PE(r) = 0.6745 \times \frac{1-r^2}{\sqrt{N}}$$

Where,

r = correlation coefficient between given variables.

N = No. of pairs of observation

If r<P.E. (r) the coefficient of correlation is value of r is not at all significant. If r<P.E. (r) the coefficient of correlation is practically certain i.e. value of r is definitely significant.

4.8.1 Correlation Analysis between Total Deposit and Net profit:

As highlighted by the annex 9 correlation coefficient and probable error of correlation coefficient between total deposit and net profit in SBI appeared -0.63 and 0.18 respectively for the study period. Correlation coefficient appeared less than six times the probable error i.e. -0.63<6x0.18. it means there is no evidence of correlation.

As shown by the annex 10 the coefficient of correlation between total deposit and net profit in EBL remained 0.98 where as the probable error of coefficient remained 0.01. correlation coefficient came grater than six times the probable error i.e. 0.98>6x0.01. it signifies that there exist positive and high correlation between total deposit and net profit by accumulating more deposit.

Between the two banks as revealed by the greater coefficient of correlation, EBL seems more efficient in utilizing the deposit for income generating purpose.

CHAPTER-FIVE

SUMMARY CONCLUSION & RECOMMENDATIONS

5.1 Summary:

Actual history of banking system in Nepal begins with establishment of NBL in 1994 B.S. Up to now there are all together 27 commercial banks. These banks have played vital role in the economic development of the country. They have introduced banking techniques with international networking. They have played the pivoted role in mobilization of funds. They are providing their services on commerce, trade and industry along with general public. But the intense competition and lack of sufficient investment opportunities have created threats to the banks. Therefore, the study has been concluded to evaluated the profit planning system of commercial banks with special reference to the Nepal SBI Bank Ltd. And Everest Bank Pvt Ltd i.e. comparative strength and weakness of these banks to check the chance of duplication and follow the principles and doctrines of the research, supportive text and the previous directions have been reviewed. For analyzing the financial data of the sampled bank he financial tools ratio analysis and income and expenditure analysis as well as statistical tools mean correlation, least square linear trend analysis have been applied. Form the analysis and interpretation of the data, the researcher arrives at following conclusion.

With reference to the three performing measures profitability position of EBL seems better than SBI. Marginal return to equity is unsatisfactory for SBI but quite good for EBL. Regarding the operation efficiency measures, EBL has shown its better performance. Turnover of deposits, assets and debt is better in EBL but SBI is successful in cost management. It has showed high performance with the minimum expenditure. Both banks have used higher proportion of debt in their capital structure over all capital structure of EBL appears more levered than that of SBI. This suggests that EBL has adopted more risk, more profit policy. The policy will be fruitful further to shareholders if the business activities follow smooth operation. Liquidity position of both of the banks seems satisfactory. After all this, all liquidity position on SBI is stronger than that of EBL. This shows SBI is comparatively efficient to meet its immediate liabilities than EBL however, trying up more funds in form of current assets is also not wise since it yields no more and has inverse impact on profitability.

Income and expenses analysis reveals rising trend in both of the banks. Interest seems to occupy major part of the both income and expenses. Comparatively, interest remained more dominant in total income and expenses of SBI than that of EBL.

Correlation analysis reveals that there exists highly significant correlation between total deposit and net profit, total deposit and Investment , total deposit and loans and advances and performing assets and net profit in EBL. This signifies there is higher efficiency in utilizing the resources, but SBI showed there is insignificant correlation between total deposit and net profit, total deposit and investment, performing assets and net profit, this is due to highly fluctuation in net profit and investment.

Trend analysis depicts that total deposit, loans and advances, total investment, net profit, cost and revenue all have been growing with higher rate in EBL than SBI. Therefore estimated value of the above variable for coming years will be higher in EBL. The value of 'b' of net profit in SBI is negative . this signifies the net profit in SBI will decline in coming years.

The regression analysis shows there is positive relationship between loans and advances and total deposit in both SBI and EBL. But there is negative relationship between profit and loans and advances in SBI.

5.2 Conclusion

The following finding have been derived from the analysis and interpretation of the data:

1. Average net profit margin remained greater in EBL. It signifies that profitability with respect to the gross earning is stronger in EBL than that of SBI.
2. Average return on assets in EBL was considerably higher than in SBI. It implies that SBI proved to be weaker in utilizing the banks assets for the profit generation.
3. Return on net worth on an average was lower in SBI . it reveals the better earning position of EBL with respect to its shareholder's fund.
4. Average interest earned to total assets ratio was found marginally higher in SBI than that of EBL. It reveals both bank have managed its assets properly to earn interest.
5. Return on risk assets remained remarkably higher in EBL than SBI. It again reveals the higher rate of profit realization through risk assets, loans and advances and overdrafts' bill purchased and discounted of EBL. The ratio throughout the study period showed higher fluctuation in SBI.
6. As revealed by higher return on total deposit (excluding fixed deposit)in EBL it seemed to be more successful in utilizing the accumulated deposit (excluding fixed deposit) for profit making.

7. Major return to equity showed that the equity holders of EBL are getting positive and high return from the organization but in contrast the shareholder of SBI are getting negative return. It indicates the equity holders of EBL are getting higher profit than that of SBI. It can be concluded that EBL has better utilized the incremental equity for the profit generation.

8. Loans and advances to total deposit ratio appeared higher EBL. It indicates that EBL is more successful in utilizing the depositors fund to earn profit.

9. Average of loans and advances to fixed deposit ratio in both banks remained almost the same which showed good performance of the bank in this regard. Both bank have properly utilized this high interest gearing debt in term of loans and advances for income generation.

10. As depicted by significantly higher loans and advances to saving deposit ratio in SBI. It seems more successful in utilizing the short term and interest earning saving deposit in form of loans and advances.

11. Higher ratio of investment to total deposit in EBL showed that it has more successfully allocated its deposits in investment portfolio. The ratio seemed to be very less in SBI.

12. Performing assets to total assets ratio of EBL seemed comparatively greater than that of SBI. It signifies the more successful investment decision of EBL regarding the assets in profitable sectors. The ratio in SBI also seemed satisfactory.

13. Performing assets to total debt ratio of SBI exceeded the same of EBL on an average from this, it can be concluded that SBI allocated the cost bearing fund more successfully than EBL.

14. Personal expenses to total income ratio remained lower in SBI. It indicates that SBI carried out its operation more efficiently with lesser expenses on staff. But, EBL might have maintained higher ratio to build good employees, management relationship, reduce their absenteeism, turnover and to attract potential manpower towards the organization.

15. As revealed by the considerably lower office operation expenses to total operation income ratio, SBI is in much better condition regarding the operational efficiency than EBL.

16. Debt-assets ratio appeared higher in EBL as compared to that of SBI, which suggests the more aggressive policy of the former in raising the capital, on the other hand, leverage position of SBI seemed less risky.

17. As revealed by the leverage factors, both the banks have employed greater extent of debt in their capital structure. Comparatively EBL seemed more levered i.e. more risky than the SBI in this regard.

18. Considerably higher interest coverage ratio in EBL. Revealed the better debt serving capacity of the bank. The ratio in SBI also seemed satisfactory which is more than 1 (one).

19. Provision for possible lossless to loans and advances ratio in SBI exceeded that in EBL which indicates that loans and advances granted by the banks are inferior in contrast to EBL.

20. Average cash and bank balance to total deposit (exl, FD) ratio of SBI remained greater than that of EBL, it indicates the better liquidity position of SBI.

21. Average fixed deposit to total deposit ratio appeared slightly higher in EBL. Thus, the bank cab experience high profit by investing fund in long term loans. On the other hand SBI can grapes the opportunity of less cost bearing fund in current assets so as to strengthen the liquidity position.

22. NRB balance to current and saving deposit ratio remained sufficiently higher above the standard set by NRB i.e. 7% in each year of the reviewed period in both of the banks. Comparatively, it is greater in SBI which indicates the better liquidity position than that of EBL.

23. Both the banks have maintained NRB balance to fixed deposit ratio above the standard prescribed by NRB i.e. 4.5% in each year of the study. Mean ratio appeared combatively higher in SBI. That reveals the thicker safety margin against the F.D. that's why idleness of such high interest bearing deposit in such a great extent may have adversely affected the profitability of the SBI.

24. Income and expenditure analysis shows that interest remained dominant in total income and expenses of both banks. More than three fourth of the income was occupied by interest commission and discounts occupied second major portion of income in both the banks. Regarding he expenses, in the both banks second proportion was placed by office operation expenses.

25. Total deposit and net profit, total deposit and investment, total deposit and loans and advances and performing assets and net

profit seemed positively correlated at significant level in EBL. But only total deposit and loans and advances seemed positive correlated at significant level in SBI. There was no evidence of correlation in other factors in SBI.

26. Total deposit, loans and advances, total investment, total cost, total revenue showed the increased trend over the study period in both the banks. Study showed that these variables increased with faster rate in EBL than that in SBI. Hence, the speed of increment of these variables will also remain higher in EBL if the past trend continues. But the trend of net profit showed decreasing trend over the study period in SBI.

5.3 Recommendation:

Having undertaken the overall analysis of PPC in both some useful recommendations are purposed is feedback to both the banks as a guideline to device profit planning strategy in the years to come.

1. About all the profitability ratios examined for the study are less in SBI than EBL. It signifies the unsatisfactory profitability position of the SBI than EBL. So, SBI has a challenge to allocate its resources in income generation sectors. It will be better for both the banks. Especially SBI to open the branches in other cities and rural area in order to find profitable opportunities.
2. Turnover of the fund raised from the outsiders appeared less satisfactory in SBI. Investment portfolio followed by the bank may also be the reason for its lower profitability. That's why it is suggestive that it would be better to raise its investments portfolio for the better turnover.

3. Greater portion of the income has been spent for personnel and office operation in EBL. Regarding the cost effectiveness aspect it is suggested that the bank can minimize the office operation expenses by diagnosing the loopholes. It can also enhances the efficiency of the staff through the use of capacity building programmers, seminars, trainings etc.
4. The banks have remarkably higher portion of debt in their capital. Therefore they should be aware of the possible risk and impact upon their liquidity and profitability that may arise due to the slackness in the business activities. They should b adopt precautions actions to check the risk factor in time.
5. Debt serving capacity of SBI appears poor as revealed by the lower interest coverage ratio than that of EBL, EBL has maintained the lesser provision for possible losses against loans and advances. So, it is better to search for the profitable sectors for investment and utilization of the resources.
6. Both the banks maintained NRB balance to deposit ratio considerably higher than the standard set by NRB. The fund thus tied in NRB balance yields no return. So it suggested to lower the ratio and invest the surplus fund in other current assets, loans and advances, bills purchased and discounted money at call and short notice.
7. Both the banks are suggested to raised their net worth to meet the directive of NRB that all CB must raise their paid up capital to (1000 million) rupees by (F.Y. 2065/66). They could not meet the requirement in time by following the normal increasing trend of net worth. That’s why, they need to capitalize their profit and issue stock dividend and right share.

8. Both the banks are suggested to review their investment portfolio to see if there is any better mix than the present one. SBI should invest more of its fund in government securities.(Investment)
9. Both the banks are suggested to promote their international banking to increase their remittance and other banking business.
10. In present sluggish economic conditions both the bank are advised to enhance the their purchase and retail finance scheme as housing loan, education loan, high net worth individual loan, consumer durable loan etc. they are also suggested to introduce advanced banking facilities such as credit/debit card. Tele-banking ATM card facilities to cover the large circle of customers.
11. Profit should not be the one and only one goal of the commercial bank although it needs to be earned for survival (smooth running) and growth of any organization. The country has expected supports and services from the financial sectors fro the balanced economics development. Economic level of the country can be enhanced only when the economic status of people below the poverty line incenses. So the banks are suggested to diversify their loans in priority and deprived sectors as more as possible by opening more rural branches.

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Appendix-I

Least Square Linear Trend of Total Deposit of SBI

Year (X)	Total Deposit	X	X^2	XY
060/061	3744506.90	-2	4	-7489013.80
061/062	4380018.80	-1	1	-4380018.80
062/063	4535374.20	0	0	0.00
063/064	6612290.00	1	1	6612290.00
064/065	5572470.20	2	4	11144940.40
Total	**24844660.06**		**10**	**5888197.80**

$$b = \frac{\sum xy}{\sum x^2} = 588819.78$$

$$a = \frac{\sum y}{N} = \frac{24844660.06}{5} = 4968932.01$$

$$y = a + bx = 4968932.01 + 588819.78x$$

Appendix-II

Least Square Linear Trend of Total Deposit of EBL

Year (X)	Total Deposit	X	X^2	XY
060/061	1124903.12	-2	4	-2249806.24
061/062	1948946.58	-1	1	-1948946.58
062/063	3057423.95	0	0	0.00
063/064	4574508.95	1	1	4574508.95
064/065	5466609.8	2	4	10933219.60
Total	**16172392.40**		**10**	**11308975.73**

$$b = \frac{\sum xy}{\sum x^2} = 1130897.57$$

$$a = \frac{\sum y}{N} = \frac{16172392.40}{5} = 3234478.48$$

$$y = a + bx = 3234478.48 + 1130897.57x$$

Appendix-III

Loan and Advance of SBI

Year (X)	Loan & Advance	X	X^2	XY
060/061	2363559.2	-2	4	-4727118.40
061/062	2963032.3	-1	1	-2963032.30
062/063	3559409.7	0	0	0.00
063/064	4188414.2	1	1	4188414.20
064/065	4299249.3	2	4	8598498.60
Total	**17373664.70**		**10**	**5096762.10**

$$b = \frac{\sum xy}{\sum x^2} = 509676.21$$

$$a = \frac{\sum y}{N} = \frac{17373664.70}{5} = 3474732.94$$

$$y = a + bx = 3474732.94 + 509676.21x$$

Appendix-IV

Loan and Advance of EBL

Year (X)	Loan & Advance	X	X^2	XY
060/061	871677.98	-2	4	-1743355.96
061/062	1364884.2	-1	1	-1364884.20
062/063	2270179.7	0	0	0.00
063/064	3005757.9	1	1	3005757.90
064/065	3948478	2	4	7896956.00
Total	**11460977.78**		**10**	**7794473.74**

$$b = \frac{\sum xy}{\sum x^2} = 779447.37$$

$$a = \frac{\sum y}{N} = \frac{11460977.78}{5} = 2292195.56$$

$$y = a + bx = 2292195.56 + 779447.37x$$

Appendix-V

Total Investment of SBI

Year (X)	Total Investment	X	X^2	XY
060/061	681589.41	-2	4	-1363178.82
061/062	202578.3	-1	1	-202578.30
062/063	321793.78	0	0	0.00
063/064	763631.65	1	1	763631.65
064/065	599055.94	2	4	1198111.88
Total	**2568649.08**		**10**	**395986.41**

$$b = \frac{\sum xy}{\sum x^2} = 39598.64$$

$$a = \frac{\sum y}{N} = \frac{2568649.08}{5} = 513729.82$$

$$y = a + bx = 513729.82 + 39598.64x$$

Appendix-VI

Total Investment of EBL

Year (X)	Total Investment	X	X^2	XY
060/061	217954.88	-2	4	-435909.76
061/062	283079.2	-1	1	-283079.20
062/063	670462.83	0	0	0.00
063/064	1141801.8	1	1	1141801.80
064/065	1779166.8	2	4	3558333.60
Total	**4092465.51**		**10**	**3981146.44**

$$b = \frac{\sum xy}{\sum x^2} = 398114.64$$

$$a = \frac{\sum y}{N} = \frac{4092465.51}{5} = 818493.10$$

$$y = a + bx = 818493.10 + 398114.64x$$

Appendix-VII

Net Profit After Tax of SBI

Year (X)	NPAT	X	X^2	XY
060/061	58976.52	-2	4	-117953.04
061/062	16760.4	-1	1	-16760.40
062/063	50065.48	0	0	0.00
063/064	12490.03	1	1	12490.03
064/065	40843.77	2	4	81687.54
Total	**179136.20**		**10**	**-40535.87**

$$b = \frac{\sum xy}{\sum x^2} = -4053.59$$

$$a = \frac{\sum y}{N} = \frac{179136.20}{5} = 35827.24$$

$$y = a + bx = 35827.24 + (4053.59)x$$

Appendix-VIII

Net Profit After Tax of EBL

Year (X)	NPAT	X	X^2	XY
060/061	25033.7	-2	4	-50067.40
061/062	25230.3	-1	1	-25230.30
062/063	41265.4	0	0	0.00
063/064	69705.7	1	1	69705.70
064/065	85347.5	2	4	170695.00
Total	**246582.60**		**10**	**165103.00**

$$b = \frac{\sum xy}{\sum x^2} = 16510.30$$

$$a = \frac{\sum y}{N} = \frac{246582.60}{5} = 49316.52$$

$$y = a + bx = 49316.52 + 16510.30x$$

Appendix-IX

Correlation between Total Deposit and Net Profit of SBI

Year (X)	Total Deposit (x)	Net Profit (y)	XY	X^2	Y^2
060/061	3744507	58977	220837991976	14021332673049	3478229911
061/062	4380019	16760	73410870448	19184566440361	280911008
062/063	4535734	50065	227083699862	20572882918756	2506552288
063/064	6612290	12490	82587700469	43722379044100	156000849
064/065	5572470	40844	227600683012	31052421900900	1668213548

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$

Appendix-X

Correlation between Total Deposit and Net Profit of EBL

Year (X)	Total Deposit (x)	Net Profit (y)	XY	X^2	Y^2
060/061	1124903	25034	28160487235	1265407029386	626686136
061/062	1948947	25230	49172506897	3798392771694	636568038
062/063	3057424	41265	126165822266	9347841210034	1702833237
063/064	4574509	69706	318869348516	20926132133630	4858884612
064/065	5466610	85348	466561479906	29883822705456	7284195756

$$r_{xy} = \frac{N\Sigma xy - (\Sigma x)(\Sigma y)}{\sqrt{N\Sigma x^2 - (\Sigma x)^2}\sqrt{N\Sigma y^2 - (\Sigma y)^2}}$$