CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The excess income over expenditure is called profit. The word profit brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125). The concept of profit is not new but the concept of profit planning and control is a newly developed concept as a crucial way in the business organization. It is a recent phenomenon used extensively in the literature of business enterprise. It has not been familiar only by sample budgeting but a way of managing mostly in the better managed companies.

Managerial planning always includes the analysis of the alternative course of action which heads to process decision and evaluation of alternatives to overcome the financial problem encountered by the enterprise. The tactical (short-range) and strategic (long-range) profit plan sometimes constitute many similar mode which can be the financial aspects of the enterprise in the process of profit planning constructing. A procedure such as decision models income summaries; cash-flow analysis and return on investment analysis provide critical information for assessing the impact of different alternative.

The term comprehensive profit planning is defined as systematic and formalized approach for performing significance phases of the management planning and control function specifically it involved (a) the development and application of broad and long-range objectives for the enterprise (b) the specification of enterprise goals. (c) The long-range profit plan developed in broad term (d) a short-range profit plan detailed by assigned responsibility (e) a systematic or periodic performance reports defiled by assigned responsibility (f) follow-up procedures (Welsch, Hilton and Gordon, 1999: 30).

Profit planning function the management rests upon some fundamental views that is the conviction that management can plan and control the long-range desisting of the manufacturing enterprise by making a continuing stream of well conceived decision. The trust of the comprehensive profit planning concepts goes to the very heart of management that is the decision making process. The profit planning is used for the development and acceptance of objectives, goals and organization efficiency to achieve these objectives and goals.

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Profit planning means the development and acceptance of objectives goals and making on organization efficiency to achieve the objectives and goals. Profit planning is not a separate technique that can be through of the separated indecently of the total management process. The broad concept of profit planning entails an integration of numerous managerial approaches and techniques that might be exploited of numerous managerial approaches and techniques that might be exploited such as sales forecasting, sales quota system capital budgeting, cash flow analysis, CVP analysis, variable budgets, time and motion study, standard costing accounting, strategic planning, manpower planning and cost control.

On the view of communication, project plan program can be one of the more effective communication networks in an enterprise. A comprehensive profit planning and underlying this is the measurement of actual performance against planed objectives, goal and understand and reporting of that measurement. The reporting extends to all area of operations and to all responsibility centers in an enterprise. It involves reporting (a) actual results (b) budgeted or planned result (c) performance variance.

Profit plans are prepared for two time dimensions, strategic long range (5-10 years) and tactical short-range plan for a year detailed by interim time periods. Having prepared a plan it is equally important to implement efficiently and to watch performance. Difference between actual and budgeted results should find out and corrective measures should be taken so that it assures the realistic of the forward plan.

Nepal Industrial & Commercial Bank Limited (NIC) is the first commercial bank of Nepal. NIC became the first Bank to be provided a line of credit by International Finance Corporation (IFC), an arm of World Bank Group under its Global Trade Finance Program, enabling the Bank's Letter of Credit and Guarantee to be accepted/ confirmed by more than 200 banks worldwide.NIC Bank’s, head office is located in Center of city, Kamaladi Sadak. The Bank at present has 14 branches in Kathmandu Valley, New Road, Battisputali, Pulchowk, Bhaktapur, Satdobato, Kritipur, Samakushi ,Teku , New Baneshwor, Maharajgung, Thamel , Thankoat , Pepsicola , Boudha besides nineteen branches outside Kathmandu respectively in Biratnagar, Pokhara, Dharan, Birtamod, Birgunj, Janakpur, Damak, Butwal, Nepalgunj, Surkhet, Lahan, Dhangadhi, Ghaighat, Narayanghat, Malangawa, Mahendranagar , Malangawa , Hariwan , Gaur and Arghakhachi.

Nepal Industrial & Commercial Bank Limited (NIC) has commenced its operation on 21 july 1998 from Biratnagar. During this time, the bank has confronted various banking scenarios, which is ever changing. The bank has been a pioneer in several banking innovations. “Complete Financial Solution” has been the slogan and this has truly been implemented when it came to serving the valued customers keeping in view their comfort, time and effort.

1.2 Meaning and Importance of Financial Institutions

"Financial Institution" means an institution established under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes an institution prescribed as financial institution by Government of Nepal by publishing notice in the Nepal Gazette. (NRB Act 2002) “Banking institution is inevitable for resource mobilization and all-round development of the country. It is resources for economic development; it maintains economic confidence of various segments and extends credit to people.”

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

1.3 Major Financial Policy of Nepal

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

A. Monetary Policy

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In the 1970's liquidity requirement, credit limits, / ceiling and directed credit programmers were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. Effective exercise of cash reserve ratio requirement and bank rate as an active monetary policy tools evolved even later – since late 1990s. The basic objective of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting external trade, and attaining healthy balance of payment of the country. The NRB is the apex body assigned the task of designing and operating monetary policy. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So, monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2007/08. The

B. Banking Policy

The NRB has issued its new licensing policy for the establishment of commercial banks, finance companies and development banks on 1st Shrawan 2063. The main provisions contained in the new licensing policy are as follows:

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

C. Credit Policy

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

D. Interest Rate Policy

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

1.4 Development of Banks

“The history of bank started from the merchants, goldsmith, and money lenders they are called ancestors of modern banking. Before 1848 Goldsmith used to store people's gold and other valuable goods and charge nominal charges against the deposit. That time people deposited their gold and valuable goods for the sake of securities rather than earning interest. The term bank emerged in USA in 1848 BC” (Paul, 1996:12).

The bank means institute, which deals with money. A bank performs several financial monetary and economic activities that are very essential for economic development of any country. Broadly speaking bank collects surplus money from the people who are not using it at present and hoarding for the future and supplies loan to who are in the position to use it for productive purpose, Basically banks perform various types of services i.e. collection of deposits from the public supply loans to those investors who want to invest in business industry and other sectors, overdraft, letter of credit, bills discounting, promissory notes, merchant banking, agency function of tasks guarantee against any disable of payment , remittance services etc.

Nowadays banking sector is involving in the planning and construction of land housing. The history of modern financial system is not too long. In Nepal it was begun in 1937 with the establishment of Nepal Bank Ltd. as a first commercial bank in Nepal. The bank was established to render services to the people for the economic progress of the country prior to the establishment of Nepal Rastra Bank; it plays the role of central bank also with the establishment of NRB 1956 under the Nepal Rastra Bank Act 1955. The new Nepal Rastra Bank Act was brought out in 2002 by replacing the previous Act of 1955. This new Act has provided operational autonomy and independence to the Bank. Then after Government of Nepal and NRB has established the Nepal Industrial Development Corporation (NIDC) Capital market in 1959. The second commercial bank the Rastriya Banijya Bank was established in the public sector in 1966, with the equity participation of Government of Nepal and Agriculture Development Bank Act, 1967 by incorporating the assets and liabilities of the Co-operative Bank (Sharma, 2002:3). Numbers of financial institutions were setup till now. The legislation of commercial bank Act, 1974 set out regulation for licensing supervision and cancellation of license of commercial banks and encouraged the establishment of other commercial banks in Nepal. The move towards financial liberalization encouraged the entry of joint venture and private commercial banks. In the context of banking development, the 1980s saw a major structural change in financial sector policies, regulations and institutional developments. Government of Nepal emphasized the role of the private sector for the investment in the financial sector. The financial sector liberalization, started already in the early eighties with the liberalization of the interest rates, encompassed further deregulation of interest rates, relaxation of entry barriers for domestic and foreign banks, restructuring of public sector commercial banks and withdrawal of central bank control over their portfolio management .The Nepal Arab Bank (NABIL) limited is the first joint venture commercial bank of Nepal was established in 1984. The Nepal Indosuez Banks Ltd (now Nepal investment Bank limited). and Nepal Grindlays Bank Ltd.(Now Standard Chartered Bank ltd) two other joint venture commercial banks, were established in 1986 and 1987 respectively. With the passage of time, functions of banks have increased manifold. Since banks are rendering a wide range of services to the people of different walks of life, they have become an essential part of modern society. Life without a bank is it brick bank or click bank (internet banking), is beyond imagination (Dahal & Dahal, 2002:7).

1.5 Profile of NIC

Nepal Industrial & Commercial Bank Limited (NIC Bank) established in 1998.The bank, commenced its operation from Biratnagar, promoted by some of the prominent business houses of the country. Despite the cut-throat competition in the Nepalese Banking sector, NIC Bank Ltd. has been able to maintain a lead in the primary banking activities- Loans and Deposits from the beginning which result NIC Bank Ltd. was the first commercial bank in Nepal to have received ISO 9001:2000 certification for its Quality Management System standard in the year 2006.

Legacy of NIC Bank Ltd. lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as NIC Corporate Super Account, NIC Saving plus, Mero Bachat, NIC Life Savings Accounts, NIC USD Super Saving Account, NIC Super Deposite, NIC Shareholder Saving Account, Karmashil Bachat Khata, NIC Business Account, NIC Sikshaya Kosh, NIC Ghar Subidha, NIC Auto Loan, NIC Education Loan and NIC Sajilo Karza besides services such as ATM/Debit Card, SMS Banking, NIC Pure Gold, NIC Pure Silver, Medallion, Remittance and Safe Deposit Locker Facilities.

Other financial institutions in the country have been following its lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. All Branches of NIC Bank Ltd. are integrated into Globes (developed by Tremens), the single Banking software where the Bank has made substantial investments.

1.6 Statement of the Problems

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business a whole. In our country, the industrialization is still in its early stages therefore, the concept of profit planning has not even been familiar in the most of the business concerns including commercial banks. Commercial banks play vital role in economic growth of a country. As a commercial institution, a commercial bank must make profit out of its operations for its survival and fulfillment of the responsibilities assigned. A commercial bank's major activities include mobilization of resources, which involves cost, and profitable deployment of those resources, which generates incomes. The differential interest income over the interest cost, which is popularly called interest margin, can be considered as the 'contribution margin' in the profit of the bank. The other operational expenses form a burden to contribution margin which, the banks are attempting to compensate by other income generated out of non fund based business activities of the bank.

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

- Does Nepal Industrial & Commercial Bank Limited (NIC) have appropriate profit planning system?
- Does the bank mobilize the deposit and other resources optimally?
- What is the trend of overall performance of Nepal Industrial & Commercial Bank Limited (NIC)?

1.7 Objectives of the Study

This study is mainly concerned with financial indicators and ratio analysis of Nepal Industrial & Commercial Bank Limited (NIC). The Primary objective of this study is to analyze the financial position of Nepal Industrial & Commercial Bank Limited (NIC) from the point of view of profit and to study the application of comprehensive PPC system in Nepal Industrial & Commercial Bank Limited (NIC).

Apart from this the main objective of the study is To focus the current profit planning adopted and its effectiveness in Nepal Industrial & Commercial Bank Limited (NIC)

1.8 Rational of the Study

Achievement of objective in every organization depends on the application of available resources most effectively. Mobilization of internal resources is one of the key factors in economic and social development of a county. Financial institutions are the major players in this field. The more healthy banking practice in an economy, the better becomes the economic development. The research study is connected with the profit planning in commercial banks with a case study of Nepal Industrial & Commercial Bank Limited (NIC), with the major objectives of examining the proper applicability of profit planning system in the bank. Profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources.

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

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

1.9 Limitations of the Study

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

- The study focuses on profit planning and its application in Nepal Industrial & Commercial Bank Limited (NIC).
- Since, the report is prepared in short time based on secondary data and some published sources, the outcome of the study may not be exactly this study covers the related date of the bank from FY 2004 to 2009.
- In this study, the sample of Nepal Industrial & Commercial Bank Limited (NIC) is selected among all the commercial banks. But these may not represent the character of financial institutions.
- This study is analysis with the help of financial tools and few statistical tools.
- This study is meant only for the fulfillment of requirements Master of Business Studies (MBS)

1.10 Organization of the Study

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

Chapter I – Introduction

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

Chapter II – Review of Literature

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

Chapter III – Research Methodology

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

Chapter IV – Data Presentation & Analysis

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

Chapter V – Summary, Conclusion & Recommendations

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

CHAPTER- II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Introduction

A literature review is an account of what has been published on a topic by accredited scholars and researchers. A review may be a self-contained unit an end in itself or a preface to and rationale for engaging in primary research. A review is a required part of grant and research proposal and often a chapter in thesis and dissertations. The purpose of writing the literature review is to convey the reader what knowledge and ideas have been established on a topic and what their strength and weaknesses are.

This chapter presents the conceptual framework about the commercial banks, its activities, banking practices, the legal and regulatory framework, and profit planning concepts and its applicability in commercial banking activities. This chapter is also concerned with the review of literature relevant to the financial statement of commercial banks, specially the contents of the Balance Sheet and the Profit & Loss Account. The chapter also provides insight into the findings of earlier studies through the review of books, publications and previous studies.

This chapter devotes to review various literatures in the form of books written by various authors, published newspapers and journals, browsing materials from the concerned web sites, NRB regulation, commercial act, and NIC Bank Ltd. old annual reports in the related subject matters. The first part of the chapter deals with the conceptual framework of the study and the second part is concern with review of previous article, journals and dissertation.

2.2 Concept of Commercial Bank

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

The major functions of commercial banks are as follows:

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

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

2.2.1 NRB Regulation

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

- To protect and promote the depositors rights by increasing attitude of public towards the bank and financial institutions.
- To provide qualitative services by the means of healthy competition among the banks.

- To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

2.2.1.1 Prescribed Regulations for Commercial Banks

a) Capital Adequacy

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

b) Loan loss Reserves

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

c) Reserve Requirements

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

d) Reporting Requirements

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

e) Systems and Policy Documents

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

f) Technology and Technical Service

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

2.2.2 Evolution of Commercial Bank

The word 'Bank' is derived from the word 'Banco', 'Bancus", or 'Banque' all meaning to a bench. This refers that early bankers transacted their money lending activities on banches in the marketplace exhibiting the coins of different countries in different denominations for the purpose of changing and or lending money. Some writers are of the opinion that the word 'Bank' came from the German word ' Banc' meaning joint stock fund. (Varshney, 1993:145). Money lenders in the streets of major cities of Europe used benches for acceptance and payment of valuables and coins. When they were unable to meet their liabilities, the depositors used to break their benches. The term "bankruptcy" is derived thereof. Banking is as old as is the authentic history and origins of the modern commercial banking are traceable in ancient times. In ancient Greece, around 2000 A.D. The famous temples of Ephesus, Delphi and Olympia were used as depositors for people's surplus fund and these temples were the centers for money lending transaction .The priest of these temples acted as financial agents until public confidence was destroyed by the spread of disbelief in the religion. Later, however, for a few centuries, banking as an organized system of money lending receded because of the religious belief that the charging of interest was immoral. However, the banking as we know today, made its first beginning around the middle of 12th century in Italy. The bank of Venice, founded in 1157 A.D m was the first public banking institution. Following this, in 14th century, the bank of Barcelona and bank of Genoa were established in 1401 A.D. (www.bankinginnepal.com).

The ancient Hindu scriptures refer to the money lending activities in the Vedic period in India. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity and during the Smriti period, the business of banking was carried on by members of Vanish community. Manu, the great law giver of the time speaks of the earning of interest as the business of Vishyas. The bankers in the smriti period performed most of those functions which the banks in modern times performs such as the accepting of deposits, granting loans, acting as the treasurer, granting loans to the king in times of grave crises and banker to the state and issuing and managing currency of the country (Vanish, 1996:183). In Nepal goldsmiths, merchants and money lenders were the ancient bankers of Nepal like other countries. Tejarathe Adda established during the Prime Minister Ranoddip Sing B.S 1933, was the first step towards the institutional development banking in Nepal. Tejarath Adda did not collect deposits from public but gave loans to employees and public. Banking in modern senses started with the beginning of Nepal Bank limited (NBL) on B.S 1994. NBL had Heroic accountability of attracting people toward banking sector from pre dominant money lenders net and of increasing banking services. Nepal Rastraya Bank (NRB) was established on B.S 2013.01.14 as a central bank under the NRB act 2012 B.S the government had responsibility of stretching banking services to the corner of the country and also managing financial system in the appropriate system. NRB has been working as the government's bank and has contributed to the growth of financial sector. The major confront before NRB today is to make sure the health of financial institution. Accordingly, NRB has been trying to change them and has introduced as host of prudential measures to safe guard the interest of the public. NRB is yet to do a lot to prove themselves and efficient supervisor. NRB really requires strengthening their policy making, supervision and examination device. Government set up Rastriya Banijya Bank (RBB) in BS 2022 as a fully government owned commercial bank. The first private financial institution, Nepal Bank Limited, was established in 1937 with the only other major commercial financial institution, Nepal Industrial Development Corporation, established in 1957 initially as the Industrial Development Board, but converted in 1959 to its present form. It should be noted that technically the first legal financial institution in Nepal was the establishment of the Tejarath Adda in 1877, however it faced problems catering to the general needs of the population as it had the sole objective of providing credit only, with no deposits mobilized (NRB, 1996). The growth of financial sector in Nepal is much better compared to the other sectors in the country. The decade long conflict has had its toll on every sector including the financial sector. Despite the conflict and political insurgency, financial sector continued growing. Nepalese Financial sector is comprised of organized and unorganized sector. The Nepalese organized financial sector is composed of banking sector and non banking sector. Besides commercial banks, there are sizeable numbers of development banks, finance companies, micro-credit development banks, cooperative, NGOs and postal saving offices that undertake limited banking and financial services. Non-bank financial sector comprises Funds, Trusts and thrifts like, Employee Provident Fund, Citizen Investment Trusts, and Mutual fund. Nepalese banking system has now a wide geographic reach and institutional diversification. Although, Nepalese financial sector is dynamic, a lot of scope for development of this sector exists. This is because the banking and non-banking sectors have not been able to capture all the potentialities of business till this time. It is evident from the Rural Credit Survey Report that the majority of rural credit is supplied by the unorganized sector at a very high cost – perhaps being at two or three time of the formal sector - suggesting that the financial sector is still in the path of gradual development. Overdue loans and inefficiency of the older and the larger of commercial banks have aggravated and have been made to compete with the new trim banks with no rural operations. Also, the commercial banks, domestic or joint venture have shown little innovation and positive attitude in identifying new areas of saving and investment opportunities. Following table reflects the present development of commercial banking institutions in Nepal.

2.2.3 Activities of the Commercial Bank

Traditionally, the primary activities of a bank are essentially accepting deposits and making loans and advance. Commercial banks are found to be having been defined by their as per the commercial Banking act 2031, a 'bank' is a commercial bank established under this act and 'banking' transactions are activities of accepting deposit from the others for the purpose of lending or investing repayable on demand or after some stipulated time period by means of generally accepted procedure (Commercial Bank Act, 2031).

In the book how of banking Dr. H.L. Hart says "A banker is one who in the ordinary course of his business honours cheques drawn upon him by person from and whom he reserves money in his current account."

In the book of banking law and practice by Goulash & Gulshan has quoted H.P Sheldoris opinion as the functions of receiving money from his customs and repaying it by honouring their cheques as and when required is the function, above all function, which distinguish a banking business from any other kind of business.

Similarly, the same book has also quoted Sir John pager's saying as "No person or body corporate or otherwise, can be a banker who doesn't;

i. Take deposit accounts
ii. Take current account
iii. Issue and pay cheques drawn on himself and
iv. Collect cheques for his customer" (Gulshan and Gulshan, 1994: 107).
v. Mobilization of Resources
vi. Deployment of Resources

From above points, it is clear that a commercial banks primary activities are two fold viz. one that of accepting deposit from public, which is the major source of the resources of the bank and another making loans and investments, which is basically creating income yielding asset of the bank for fulfillment of its commercial objectives.

The primary activity of a commercial bank has been categorized in two folds as below:

2.2.4 Mobilization of Resources

Resources of a commercial bank constitutes, as like in other business institutions.

A) Owner's Fund or Capital Fund

Owners fund of the bank is the capital, which includes paid up capital, reserves, retained earnings, share premium, non-redeemable preference share Apart from those maintained above other reserves and provision items allocated out of profit of the bank are also considered as the supplementary capital fund owners fund is the most dependable source of bank's liquidity.

As per central bank (NRB) guideline, a commercial bank must have paid up capital of Rs. 500 million in order to be established as a national level commercial bank. Further the NRB has also prescribed the capital adequacy norms (the ratio of capital fund to the risk asset as per varying weighted assets) to be of at least 12f by the fiscal year 2060/61.

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

The Borrowed fund of a bank constitutes the resources apart from the owners' fund. In a bank it is mostly contributed by customer's deposit and some part by the short term fund borrowed from other banks and /or central bank.

B) Customer Deposits

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

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

Demand deposits are usually accepted in current accounts. A current account is running and active account which may be operated upon any number of times during a working day. As per commercial banking act of Nepal current account is the bank account having money, which s subject to repayable where ever demanded. Those accounts are suitable for businessmen, joint stock companies institutions, public authorities etc.

The time deposits consisting fixed deposit and partly of saving deposit are called so because these can be withdrawn only after the expiry of the stipulated period for which these have been made. Banks offer interest on these accounts varying the duration of deposit maturities. Time deposits are kept generally by individuals, educational institutions, charitable trusts and others having surplus fund for future saving and earning some regular return on it.

The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031, as the bank account having money which is deposited for the purpose of saving (Commercial Bank Act, 2031). Banks generally impose certain restrictions on withdrawal from such accounts.

Fixed deposit account is opened by the bank, in the one of the depositors keeping fixed deposits. Amount in such accounts are called time liabilities of the bank because the money is payable on the expiry of a fixed period of time which the depositors choose as per his convenience.

The commercial banking act 2031 defines fixed deposit account as the "bank account which is having money in it for specific period of time."

C) Other Liabilities

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

2.2.5 Deployment of Resources

Deployment of resources of the bank means utilization of the banks fund in such a way that it ensures liquidity as well as gives some earnings for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio which meets above requirement in the best way. In fact the efficiency of a banker is reflected by this activity.

Every bank strives to maximum its earning by employing its surplus cash by lending it to the prudent borrowers in a manner which in no way impairs its capacity to pay on demand the acquitted fund to their owners.

Thus for banker, deployment of the available resources is a challenging job, because the liquidity and profitability are the opposing consideration to each other. M.C Vaish in his book money banking trade and public finance's has rightly said " the secret of successful banking consists in allocating the resources between various forms of competing assets in such a way that a proper balance is stuck between the opposing consideration of liquidity and profitability. The sound balance will be achieved when the bank has sufficient(and no more than sufficient) cash in hand to meet every claim that is or likely to be made by its depositors on it and at the same time it earns enough income to pave its way and earns profit for its shareholders (Vaish, 1996: 119).

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

A) Assets Portfolio for Liquidity

Liquidity in a bank means its capacity to convert its deposit liabilities in to cash. A major portion of a bank's resources constitute customer deposit which are subject to repayable on demand or after some time as the case may be, a banker cannot offered to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance at their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objective of the bank as the idle cash gives no return rather it involves the cost of carrying (insurance cost, guarantee cost etc.).

The central bank fixes the mandatory cash reserve ratio (CRR) from time to time current CRR fixed by NRB for commercial banks is as below:

i. Balance to be maintained at NRB Account. At least 7% of current and saving deposits amount and 4.5% of fixed deposit amount.
ii. Balance to be kept in Bank's vault. A least 3% of total deposit liability (NRB circular 2001/2002). (Nepal Rastra Bank, 2001).

B) Investments

Banking includes the fund invested for buying government and other stock exchange security treasury bills fund placement at cell account with other bank etc. such investment can easily be liquidated if required this has a feature of liquid assets as well as giving some yield out of it also. Therefore, it is in second line in terms of liquidity from cash and balance at NRB.

C) Loans, Overdrafts and Discounts (LDO)

Banking business essentially involves lending in fact the deposits are accepted for lending or investment. This is the most profitable activity of a commercial bank. Banks being a business proposition it must declare handsome dividends to its shareholders unless the profit outlook of a bank is bright, new funds will be difficult to obtain (Vaish, 1996: 201).

Commercial banks generally tend for short-term commercial purpose to finance the need of trade and commerce. As the fund available for lending with the banks is mostly the fund mobilized from the depositors, a commercial, bank should carefully consider the safety margin before granting the loan. The banker should be extra careful in selection the borrowers. Generally banks lending is guided by their lending policies. General, principal of a sound lending policy of a bank are as follows (Gulsham & Gulshan, 1994: 179).

- **Safety:** Bank's lending should be secured by way of tangible securities or personal security (guarantee) of the borrower.
- **Liquidity:** As the bulk of fund in the bank are short term fund received

  As deposits it is prudent to confine into short term advances which can be repaid quickly.

- **Profitability:** The major income of a bank comes from the difference in interest earned from the borrower and interest paid to the depositors, which is termed as 'spread' the interest rate of lending depends upon the purpose of advance and the risk involved Greater the risk involved higher will be the rate of interest charged.
- **Risk Diversification:** The famous saying "don't put all eggs in one basket" is the fundamental base of the principle or risk diversification. As there is risk in every advance, bank should spread the risk by lending to larger number of borrowers.

Generally, banks make their advanced in the forms of loans, overdrafts, cash credits and bills discounting.

In a loan discount the entire amount is disbursed to the borrower, which is repayable in instalment or in lump sum and expiry of loans. Interest is charged on the entire loan disbursed to the borrower. The types of loan may be pledge loan, demand loan. Hire purchase, import finance (transit loans), export Finance (packing credit), loan against shares etc.

Overdrafts are granted in current account of a customer. It is the permission given to overdraw from an account up to a certain limit allowed to the person on revolving basis. Interest is charged on daily outstanding overdrawn amount only. Normally such facility is given against the security of collectors, fixed deposit, government securities, shares, life insurance policies etc.

Cash credits are similar to overdraft in terms but it is provided to the borrower as working capital finance, normally to traders, industrialist, farmers etc. In cash credit facility unlike in loans, the borrower shall enjoy the flexibility of drawing the amount up to the sanctioned limit anytime they require fund during the validity of limit. As the interest is charged only to the actually utilized amount on daily basis, the borrower can repay instantly up on receipt of proceed in order to minimize their interest liability. Generally such facilities are availed against security of pledge or hypo the caption of stocks of trade commodities along with collaterals.

Discounting of bills by a bank actually is buying the bills of borrower, which are self-liquidating nature by means of endorsement on the documents. The title on the payment up on liquidity is transferred in favour of the bank that discounts it. Bills may be clean or documentary. If it is a clean negotiable cheques, drafts, bills of exchange payable at sight for after certain tenor, then it is called clean bill and if the instrument is accompanied with other trade documents (commercial invoices, transport documents etc.). It becomes the documentary bill. Bills discounting is short-term credit availed by the bank in which bank gives the value of the bill (called negotiation) deduction some amount (usually the interest unit the period of its possible realization) from the face value.

2.3 Profit Planning as a Concept

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools. "A profit planning & control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise understanding of responsibilities and ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management" (Welsch, Hilton & Gordon, 2001: 215). "Profit planning is an example of short range planning. This planning focuses on improving the profit especially from a particular product over a relatively short period of time. Therefore as used here it is not the same as corporate planning of a cost rendition program" (Terry, 1968:245). "Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance "(Gupta, 1992:3). "Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future" (Fremgen, 1973:12). "Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management (Welsch, Hilton & Gordon, 2001:45). Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance reports detailed by assigned responsibility and follow up procedures (International Management Institution Geneva Conference 1980). The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follows:

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

"Profit plan is estimation and predetermination of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirements. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss" (Ninemeir and Schmidgall, 1984:125). Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a day’s profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favourable profit in the enterprises.

2.3.1 Profit as a Concept

Profit is the basic elements of profit plan so that concept of profit planning may not be complete and meaningful in absence of the clear-cut well-defined idea of profit. According to Oxford dictionary profit means:

- Financial gains
- Amount of money gained in business especially the difference between the amount earned and the amount spent
- Advantage or benefits gained from something (Hornby, 1992)

According to some theories, profit are the factor payment for taking the risk for agreeing to take what is left over after contractual out lays have been made.

In the second type of profit theory are viewed as a wage for the service of innovation. Profits in this theory are field to dynamic development.

Profits around which all enterprises activities directly or indirectly revolve play the significant role for judging the managerial efficiency. In absence of profit nobody can think about the long term survivability of the enterprises.

2.3.2 Long Term and Short Term Profit Planning

"The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one year time horizon the upcoming year. The development of strategic and tactical profit plans each year is a process that involves managerial decisions and ideally a high level of management participation "(Welch, Hilton & Gordon, 2006:173). While preparing the strategic profit plan state of economy, political stability, population study etc are kept in considerations. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

2.3.3 Concept of Planning and Control

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

- (To do something) arrangement for doing or using something considered working in advance.
- Way of arrangement something especially when on a drawing scheme
- Go according to plan (Horn, 1992).

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

"Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished" (Welsch, 1999).

A plan is then a projected course of action. All planning involves anticipation of the future course of events and therefore bears element of uncertainty in respect to its success.

Management planning and control begins with the establishment of the fundamental objectives of the organization and continues as the process by which necessary resources are provided and employed efficiently towards the achievement of goals. Planning is essential to accomplished goals. It reduces uncertainty and provides direction to the employees by deterring the course of action in advance.

"Planning is the feed forward process to reduce uncertainty about the future. The planning process is based and conviction that management's can plan its activities and condition the state of the enterprises that determine its destiny" (Pandey, 1991).

Planning is a mental process requiring the use of intellectual facilities, imagination foresight sound, judgement etc. whether the manager is of top level, medium level or lower level, he cannot be separated from the planning task i.e. their commonality is planning but planning differs as the level.

"In planning the manager fixes the objectives of the organization as a whole and in the light of thus, the goals of the various department of the organization. Then he proceeds to prepare a kind of blue print mapping out ways of attaining these objectives naturally then all other functions of the manager depend up on planning" (Bhusan, 1976).

- Planning is an intellectual process.
- Planning is a goal oriented task.
- Planning is a primary function of management.
- Planning pervades all managerial activities.
- Planning is directed towards efficiency.

2.3.3.1 Long Range and Short Range Planning

Long Range Planning is closely concerns with the concept of the organization as a long live institution. It is most important for aboard and long living enterprises. Long range planning varying five to ten years with the enterprises is sometimes extended to ten years. Strategic planning is one of the most difficult time span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides. The short term planning is limited time dimensions usually it covers one year’s time period. Short-term planning is used by management as a substantial part of the long-range plan.

2.3.3.2 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives.

Corporate planning is one of the parts of profit plan. It was first started in the USA in 1950 and it is however being used in one form in another in many companies there.

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

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

- Achieving objectives
- Embodiment of goals and objectives in the enterprises.
- Formulating realistic and attainable objectives.
- Clarity and adequacy of goals and objectives.
- Communication of goals and objectives.

2.3.4 Forecasting

The forecasting is to take future decision at present form, by the analysis of relevant faucets of past and present. Forecasting is not only imagination or guess matter it is related with certain assumption. Its main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible.

"It should be realized that budgeting is not merely forecasting although, forecasting is the form of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce measure result" (Pandey, 1991).

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

2.3.5 Control

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

- Have a power or authority over same body or same thing
- Regulate something
- Management, guidance, restriction
- Standard of comparison for checking the results of the experiment (Hornby, 1992; 151-158).

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

Control is an ambiguous word; it means the ability direct oneself and one's work. It can also mean domination of one person by another (management). Objectives are the basis of control in the first sense, but they must never become the basis of control as in the second for this would defeat their purpose, indeed one of the major contributions of management by substitute management. By objective is that it enables us to substitute management by self control for management by domination" (Drucker, 1954: 244).

An important aspect of control that is frequently overlooked is its relationship to the point of action or at the time or commitment. Effective control requires feed forward. In other words it is assumed that objectives plans polices and standard have been develop and communicated to those manager who have the related performance responsibilities.

Therefore, control must necessarily rest upon the concept of feedback, which requires performances measurement and triggers corrective action designed to ensure attainment of the objective. When plans become operational control must be exercised to measure progress. In some cases control also results in the revisions of prior plans and goals or in the formulation new plans changes in operations and reassignment of people. Control approach must be tailored to the characteristics of the operation and the organizational structure.

A control process designed to help monitor the periodic activities of business and of each responsibility center has the following phases.

- Compare actual performance for the period with the planned goals and objectives.
- Prepare a performance report that shows actual results, planned results
- and any differences between the two(i.e. variations above or below planned results)
- Analyze the variations and the related operations to determine the underlying causes of the variations.
- Develop alternative courses of action to correct any deficiencies and learn from the successes.
- Make a choice (corrective action) from the set of alter-natives and implement it.
- Follow up to appraise the effectiveness of the correction. Follow with feed forward for re-planning (Welsh, 1999).

The Comparison of actual result with planned goals and standard Constitutes measurement of the effectiveness of control during a specified past period. This provides the basis for effective feedback the facts shown in a performance report cannot be changed, however the historical measurement may lead to improve control in the future. The significant concept here is that objective policies and standards fulfill two basic requirements in the overall control process namely.

- Feed forward to provide a basis for control at the point of action.
- Feedback-to provide a basis for measurement of the effectiveness of control after the action was taken place more over feedback is instrumental in re-planning.

2.4 Merits and Demerits of Profit Planning and Control

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

- Profit planning and control brings organizational policy in to action.
- Organizational structure will be sound and effective by the means of PPC.
- Historical statistical and accounting data is used by PPC.
- It compels management to plan for the most economical use of labor material a capital.
- Efficiency and inefficiency can be measured by PPC.
- Management attention can be drawn by PPC for the general business condition.
- It reduced cost by increasing the span of control because fewer supervisors are needed.
- PPC creates understanding between management and their co-workers.
- PPC reduce the uncertainty and gives guidelines to achieve organizational goal.
- It provides to all level of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

Profit planning and control model can't be assumed that it is free from problem. Some of its demerits listed below.

- Preparing profit plan is a difficult task.

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

2.5 Profit Planning and Control Process

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

a. Identification and Evaluation of External Variables: Organization is always affected by two variables i.e. internal and external. Management always is curious about the variables which are directly and indirectly impact to the enterprises. Variables, which have a direct and significant impact on the enterprises, re called relevant variable. Variables may have their different relevancy according to the market nature.
b. Design of Goals and Objectives of the Enterprises: A major responsibility of management is to design the objectives & goals of the enterprise. Executive management can specify or re-state this phase of the PPC process based on realistic evaluation of the relevant variables. The management defines the purpose of the enterprise; clarify the character, environmental analysis, others decisions are taken in favor of the company.
c. Strategy formulation and Implementation: Strategy should be set out for the betterment of the enterprises. Timely implementation and evaluation is major consideration of such strategy to achieve planed goals and objectives.
d. Management Planning Instructions: Management planning instruction is communication between top management to lower level of management and it

should adopt the basic of full communication. Top management establishes a planning foundation. On the basis of this planning foundation the statement of planning guidelines is set as executive management instructions.

e. Project Plan Preparation & Evaluation: Project plans are different from periodical plan. It is a long term strategy. It is prepares and evaluated in the profit planning & control process. Consistent with this approach during the formal planning cycle, management must evaluated decide up on the plan states of each project in process and select any new projects to be initiated during time dimension covered by the upcoming strategies and tactical profit plans.

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

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

2.6 Limitations of Profit Plan

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

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

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

2.7 Profit Planning in Commercial Banks

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

2.7.1 Planning for Resources

Planning for resources is functional plan for banking sector. This is also a starting function all the planning depends on resource planning. The major resources of bank share capital and deposit .The lending and investment plan depends on the resources plan. Deposit is a primary source of resources collection. There are various types of deposit in the bank some are interest free and some are with interest. A proper mix of cost free and costly deposits corresponding to short term and long term deposits are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit at the sometime having comfortable mix of income yielding assets. Besides the deposits other resources are borrowing by inter bank loan. Certain rate of interest is directed by the NRB for inter bank loan the bank can fulfill short term requirement by taking inter bank loan too. Another resource is reserves and provision of banks. Collection of resources is one of the major functions of bank whereas deployment of such resource is also as important as this. The assts portfolio is determines by the planning for deployment. Bank can utilized their fund basically in three types of investment sector like liquid assets, lower income generating assets higher income generating assets. Liquid assets means banks should maintain certain percentage of total deposit for their short term fund requirement i.e. called liquid assets management. Secondly bank can invest in securities, treasury bills etc. i.e. lower income generating assets and last in higher income generating assets is interest generating sector like loan and advance. Most of the portion of deployment is in the loan and advance of a bank. Lending targets are fixed at various sector of economy for various kinds of trades and commercial activities and to various borrowers ensuring well diversification of the assets.

2.7.2 Non-Fund Consuming Income Plan

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

2.7.3 Planning for Expenditure

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

- Administrative expenses.
- Interest expenses.

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

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

2.7.4 Planning for Revenue

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

- Interest income
- Dividend
- Commission and Discount
- Miscellaneous income
- Foreign exchange income
- Remittance income
- Other non funded incomes

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

2.8 Application of Profit Plan in Banking Sector

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

2.9 Execution of Profit Planning and Control

The only preparing profit is useless while it doesn't come in execution. The plan should be developed with the confidence that the enterprises are going to meet or exceed all major objectives. The final examination of whether the hard work and cost in developing a profit plan are worthwhile is its helpfulness to top management. "The development of an annual profit plan ends with the planned income statement, the balance sheet and planned statement of changes in financial position. These three statements summarize and integrate the details of plans developed by the management for the period. They also report the primary impact of detailed plans on the financial characteristics of the firm. Before redistributing the completed profit plan it is generally desirable to recast certain budget schedules so that technical accounting mechanics and jargon are avoided as much as possible. The redesigned budget schedules should be assembled in on logical order, reproduced and distributed before the first day of the upcoming budget period. The profit plan completion date is important. Issuance of a profit plan after the beginning of the budget period is one sure way of destroying much of budget potential. Timely completion of the planning budget suggests the need for a budget calendar" (Welsch, 1999:265). The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and selection considerable coordinate and controlling belongings. After execution of profit planning the performance should be reported. Its phase of a comprehensive PPC program significantly influences the extent to which the organization's planned goals and objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as "The action necessary to assure the objectives, plans, policies and standards are being attended." Performance reports are one of the vital tools of management to exercise its controls function effectively.

2.10 Review of Previous Studies

Profit planning and Control played the vital role in overall profitability management which provides the guideline for the achievement of organizational goals and objectives. Various studied has been conducted for the behaviour of Profit planning. Regarding this various empirical studies have been conducting related area of profit planning. There are many researchers carried out by different research in this topic. The profit planning in the context of particularly commercial banks seems to be a new subject of study for research and analysis. So far this researcher could found some studies that have been made in this topic. Here are reviewed thesis some are manufacturing sector and some are related with financial sector which can help us to understand about their objectives, used statistical tools and major findings about this topic.

Tiwari (2003), is conducted a research entitled *“Profit Planning in Commercial Banks: A Case Study of Standard Chartered Bank Limited ”* For this purpose of the study he used the data The major concern of Mr. Tiwari is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major findings are as follows:

The major objectives of the study:

- To highlight the current profit planning premises adopted and it's effectiveness in SCBNL Bank.
- To analyze the variance of budgeted and actual achievements.
- To study the growth of the business of the bank over the period.
- To provide suggestion and recommendation for improvements of the overall profitability of the bank.

The major findings of the study were as:

- Bank is awarded by ' Bank of the year 2002 Nepal'
- Bank management policy is very strong.
- It keeps minimum number of employees and highly qualified for maintain the job.
- The bank always adopt new technology
- The Bank is provides ATM and 365 days of services for customers.
- The Bank provides funds for NGOs and Scholarship for the schools.
- The Bank is adopting new Accounting Policy prescribed by NRB.
- Customer deposit collection is the main resources mobilization of the bank.
- Loan, Allowance and Bill purchasing hold the highest outlet of resources deployment
- There is no significant relationship between budgeted and actual LABP.
- Bank's actual deposit is more variable than actual outstanding LABP. Hence, the coefficient of variation of actual deposit is highest than actual outstanding liability LABP.
- LABP holds highest outlet resources deployment among the various portfolios.
- Actual LABP are increasing trend.

Rayamajhi (2004), is conducted a research on *"Profitability of NB Bank Limited with comparison to other J/V Banks."*

The major objectives of the study:

- To find out the profitability position of JV banks and to disseminate quality information.
- To analyze the profit trend of NB Bank.
- To ascertain the comparative position of profitability of NB bank with respect to other JV banks.

The major findings of the study were as:

- NB bank has not been able to perform well the bank is in serious position.
- ROE, EPS, Net profit, Loan loss provision and interest payout ratio is worse in comparison with other JV bank's average.
- Staff expenses per employees, Credit deposit ratio is better with comparison of other JV Banks.
- The assets quality of bank is very poor.

Thapa (2004), has conducted a research work on the topic of *“A study on Profit Planning and Control of Nepal SBI Bank Limited"* his objectives and major finding are as follows:

The major objectives of the study:

- To identify the profit planning process and adopted by Nepal SBI bank limited.
- To sketch the trend of profit and loss.
- To evaluate the variance between target and actual performance.
- To recommend the steps to be taken to improve the profit planning process.

The major findings of the study were as:

- Nepal SBI does not prepare long term strategic profit plan. It only prepares short term profit plan which is usually referred as budget time period of this budget covers one fiscal year.
- The budget is not based on past performance but on targeted growth, which is very optimistic in both the budgeted year.

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

Paudel (2006), has conducted a study on *"Sales Budget of Profit Planning and Control in Manufacturing Public Enterprises: A Case Study of Dairy Development Corporation"* .His objectives and some of major findings are as follows:

The major objectives of the study:

- To analyzed the sales budget prepared by DDC.
- To evaluate the variance between budgeted and actual achievement of DDC
- To compare the sales with profit of the DDC.
- To provide the suitable suggestion and recommendations for the improvement of planning system of DDC.

The major findings of the study were as:

- DDC has fulfilled the national demand but sales achievement is below than targeted sales.
- DDC is following traditional budgeting approach.

- DDC has burden of staff, loan and other expenses which directly influenced the profitability.
- Different statistical tools show the positive relationship with actual and budgeted sales.
- DDC is adopted traditional pricing method to determine the selling price.
- Profit and Loss trend of DDC showed that it has huge loss but from F/Y 2059/60 losses in its decreasing trend.

Dahal (2006), is conducted a research entitled *"Planning process and its impact on profitability: A Case Study of Gorkha Patra Corporation"* his objectives and some of major findings are listed below.

The major objectives of the study:

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

The major findings of the study were as:

- GC does not prepare the long term strategic profit plan but it prepares tactical short term profit plan.
- GC has not adequately considered controllable and non-controllable variables affecting the corporation. They has no in depth analysis of the corporation's strength and weakness.
- The objectives of the corporation are not clear, with regard to profit making and market penetration.
- The plans are prepared from top level only. There is no letter communication between the top level and lower level management regarding the corporation's goals and objectives.

- GC has not a system of periodical performance reports. Corporation is not seriously conscious to it poor performance.
- Actual production is made in accordance with the actual sales. Therefore production activities are not done according to the budgeted production but this done according to the recent data of actual sales.

Thapa (2006), has study on *"Profit Planning in Merchandising company: A case study of National Trading Limited"* his objectives and major findings are as follows:

The major objectives of the study:

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

The major findings of the study were as:

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

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

The major objectives of the study:

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

The major findings of the study were as:

- The liquidity position of EBL is comparatively better than that of Nabil and Bok.
- In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and Bok.
- EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- BOK has higher investment on shares and debentures to total working fund ratio.
- The interest earned to total outside assets and return on total working fund ration of EBL is lowest of all.
- The return on loan and advances ratio and return on assets of EBL is lowest of all.
- The ratio suggests that the earning capacity of the bank’s loan and advances is satisfactory.
- The total interest paid to working fund ratio is less than the interest earned to total working fund ratio. So it is profitable position as it is getting higher return that is interest cost.

- The degree of risk is average on EBL. The credit risk ratio is higher than the compared banks. However the lowest C.V of credit ratio and average C.V of liquidity risk ratio and capital ratio over the study period provided for the assurance of consistency of the degree of risk.
- EBL has showing its good performance by increasing the total deposit loan and advances and investment in profitable sectors interested earnings by providing loan to clients.

2.11 Research Gap

Commercial banks invest it deposit in different profitable sector according to the direction and circular of Nepal Rastra Bank and guidelines and policy of their own bank. Financial analysis statement has to be prepared according to the direction of NRB.

Nepal Rastra bank's policy is changing time to time. So the updated study over the change of time frame is major concern for the researcher. One of the most critical of all banking problems in recent years centers on raising and maintaining sufficient capital.

The researcher could find some study so far that has been related to profit planning system of commercial bank, Nepal Investment Bank, Standard Chartered Bank, Nepal Bangladesh Bank e.t.c. This study may be a new study in this field as no study has been made profit planning of NIC. In the past financial institution were depends only upon the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so it has been tried to analyze the extra ordinary items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, it is set out to conduct the research in this stimulating topic. Many literature reviews have been gone through and given best to fulfill this work. This study put its effort to analyze the main indicators of financial performance with financial and statistical tools for a bank. Hence, to some extent this study fulfills the research gap between the "Performance of a bank and returns to Investors and it is hoped this research will be fruitful for future researchers as reference.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

How research is conducted and by which way research objective is achieved is the main concern of this chapter. the research design is described in the first part, where as in the second part the population and sample is described. The sources and types of data and technique applied for the collection of data are placed on third and fourth part of the chapter. The data analysis tool used in the research has been described in fifth part and the limitation of the methodology has been revealed at the end of this chapter.

3.2 Research Design

Keeping in mind the objectives of the study, descriptive cum analytical Research design has been followed. The research is chiefly the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing the hypothesis and their operational implications to the final analysis of data. The structure of the research is more specific. It is the outline, the scheme, the paradigm of the operation of the variables. When we draw diagrams that outline the variable and their relation and just a position, we build structural schemes for accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reach and how the problems encountered in the research will be tackled.

By research design we mean an overall framework or plan for the collection and analysis of data. The research design serves as a framework for the study, guiding the collection and analysis of the data. The research design then focuses on the data collection methods, the research instruments utilized, and the sampling plan to be followed. Specifically speaking, research design describes the general plan for collecting, analyzing and evaluating data after identifying what the researcher wants to know and what has to be dealt with in order to obtain the required information. The research design is an organized approach and not a collection of loose, unrelated parts.

The study is based on the wide range of variables and factors influencing financial decision of the listed banks. Comparative data are presented in such a way so as to make the research informative to the readers. Financial as well as tactical tools have been used to analyze and interpret the balance sheet , income statement and other accounting information.

3.3 Population and Sample

This study has been limited to the commercial banking sector, which has a large impact on the total performance of the stock exchange. Total no. of commercial banks listed in the stock exchange form the population of study. The banks included in the study is only one , that is, NIC , Nepal Industrial and Commercial Bank.. The selection is based as stratified random sampling. A total effort has been exerted to overcome the sampling error, so that the result of the study can be representative.

3.4 Nature and Sources of Data

This study mainly based on secondary data of the concerned banks, Nepal Rastra Bank, SEBO, and different library are the providers of the data. The review of literature of the proposed study was based on the text books, official publications, journals, unpublished thesis, web site etc. The necessary data and information at macro level have been collected from relevant institutions and authorities such as NRB Ministry of Finance, NEPSE, SEBO and their respective publications similarly the required micro level data derived from annual reports of selected bank, SEBO and NEPSE. In addition to above, supplementary data and information were collected from different library such as library of Shankar Dev Campus, T.U. Central library, SEBO etc. The major sources of data and information are as follows;

NRB Economic Report, NRB

Non-Banking Financial Statistics, NRB

Banking and Financial Statistics, NRB

Economic Survey, Ministry of Finance

Annual Reports of NIC(from 2006/07 to 2009/10)

Journal of Finance

Journal of Business

Previous Research Studies, Dissertation and Articles on the Subject

Various Text Books

Different Library

Different Website Related to study

3.5 Methods of Analysis

Various financial and statistical tools have been used to meet the objective of the research. The data analysis is mainly based on pattern and nature of available data. Due to limited time and resources, simple analytical statistical tools such as percentage, graph, Karl Pearson's coefficient of correlation are used in this study. Likewise, some financial tools such as ratio analysis and trend analysis have also been used for financial analysis.

The various calculated results obtained through financial and statistical tools are tabulated under the different headings. Then they are compared with each other to interpret the results.

3.5.1 Financial Tools

Financial tools are basically used to find out the strength and weakness of banks. Financial tools like ratio analysis and financial statement analysis have been used in this research

3.5.1.1 Ratio Analysis

Ratio simply means a mathematical relationship between two quantitative figure. Financial ratio is the relationship of two accounting figures.. Ratio analysis is a part of the whole process of analysis of financial statements of any business or industrial concern especially to take output and credit decisions. Thus ratio analysis is used to compare a firm's financial performance and status to that of other firm's to it overtime. Thus ratio analysis provides a strong foundation for qualitative judgment regarding financial performance of a firm. There are different financial ratios which can be described as follows.

A. Liquidity Ratios

Liquidity ratios show the ability of a bank to meet its short- term liabilities that are likely to mature in the short period.By this, much insight can be obtained into present cash solvency of the bank and its ability to remain solvent in the event of adversities. In simple sentence liquidity position of a bank means how fast bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

i. Current Ratio

The current ratio is the ratio of total current assets and current liabilities Which shows the relationship between current assets and current liabilities.

Mathematically:

$$\text{Current ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Where,

Total Current assets include cash and bank balance, loans and advances, money at call or short-term notice, investment in government securities and other interest receivable and miscellaneous current assets where as current liabilities include deposits and other accounts of short-term loan, dividend payable , tax provision, staff bonus and miscellaneous current liabilities.

The widely accepted standard of current ratio is 2:1 but accurate standard depends on business nature just like seasonal business.

ii. Cash and Bank Balance to Current Assets Ratio

This is the ratio of most liquid asset, cash and bank balance with the current assets. Higher the ratio means the firm has good capacity of fulfilling the cash demand.

$$\text{Cash \& Bank Balance to Current Assets Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Current Assets}}$$

Where, cash and banks balance includes cash in hand, foreign cash and cash in foreign banks.

iii. Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance are the most liquid current assets of a firm. This ratio is calculated by dividing the amount of cash and bank balance by the total deposits. This measure how much most liquid asset required to pay depositors immediately. It can be presented as,

$$\text{Cash and Bank Balance to Total Deposit Ratio} = \frac{\text{Cash \& Bank Balance}}{\text{Total Deposits}}$$

Where, total deposits consist of deposits on current account; saving account; fixed account, money at call and other deposits.

iv. Loan and Advances to Current Assets Ratio

Loans are also considered as current assets as most of them are maturing within a period of one year. This ratio shows how much amount of current asset is allocated in loan and advances which is calculated by dividing the loan and advance by current asset. A Bank should maintain the appropriate ratio according to market.

$$\text{Loan \& Advances to Current Assets Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Current Assets}}$$

v. Investment on Government Securities to Current Asset Ratio

This ratio shows the percentage of current assets invested on government securities. This is calculated dividing the amount of investment on government securities by the total amount of current assets .

$$\text{Investment of Government Securities to Current Asset Ratio} = \frac{\text{Investment on Government Securities}}{\text{Current Assets}}$$

B. Assets Management Ratios (Activity Ratios)

These ratios focus on optimize utilization of resource This indicate how efficiently the selected banks have arranged and invested their limited resources .The following financial ratios related to investment policy is calculated under asset management ratio

i. Loan and Advances to Total Deposit Ratio

This ratio indicates how efficiently the selected banks and finance companies are utilizing their total collections/deposits on loan and advances for optimization of profit.

$$\text{Loan \& Advances to Total Deposit Ratio} = \frac{\text{Total Loan and Advances}}{\text{Total Deposit}}$$

ii. Total Investment to Total Deposit Ratio

This ratio indicates how properly firms' deposits have been invested on government securities and shares and debentures of other companies and it is calculated by diving total amount of investment by total amount deposit .Mathematically,

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

iii Loan and Advances to Total Working Fund Ratio

The main element of total working fund is loan and advances. This ratio indicates the ability of selected banks and finance companies in terms of earning high profit from loan and advances. Loan and advances amount by total working fund. Mathematically,

$$\text{Loan \& Advances to Total Working Fund Ratio} = \frac{\text{Total Loan \& Advances}}{\text{Total Working Fund}}$$

Where, total working fund refers to current assets, net fixed assets, total loans for development banks and other sundry assets except off balance sheet items i.e., letter of credit, letter of guarantee etc.

iv. Investment on Government Securities to Total Working Fund Ratio

Investment on government securities to working fund ratio indicates how much amount of total investment is on government securities. Mathematically;

$$\text{Investment on Government Securities} = \frac{\text{Investment on Govt. Securities}}{\text{Total Working Fund}}$$

v. Investment on Shares and Debentures to Total Working Fund Ratio

This ratio indicates the investment of Banks and finance companies on the shares and debentures and calculated by dividing shares and debentures by total working fund. Mathematically,

$$\begin{array}{l}\text{Investment on Shares and} \\ \text{Debentures toTotal Working Fund Ratio} = \dfrac{\text{Investment on Share \& Debenture}}{\text{Total Working Fund}}\end{array}$$

C. Profitability Ratios

Profitability ratios are calculated to measure the efficiency of operation of a firm on term of profit. It is the indicator of the financial performance of any institution. This implies that higher the profitability ratio, better the financial performance of the bank and vice versa. Profitability position can be evaluated through following different way.

i. Return on Total Assets

This ratio establishes the relationship between net profit and total assets. This ratio is also called 'profit to assets ratio'. It is calculated dividing return on net profit/loss by total working fund and can expressed as;

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

ii. Return on Loan and Advances Ratio

Return on loan and advances ratio shows how efficiency of the Banks and finance companies have utilized their resources to earn good return from provided loan and advances. This ratio is computed to divide net profit/loss by the total amount of loan and advances. It can be mentioned as;

$$\text{Return on Loan \& Advances Ratio} = \frac{\text{Net Profit or Loss}}{\text{Total Loan \& Advances}}$$

iii. Total Interest Earned to Total Working Fund Ratio

Total interest earned to total working fund is calculated to find out the percentage of interest earned to total assets. Higher the ratio indicates the better performance of financial institutions in the form of interest earning on the better working fund. This ratio is calculated diving total interest earned from investment by total working fund and is mentioned as below;

$$\text{Total Interest Earned to Total Working Fund Ratio} = \frac{\text{Total Interest Earned}}{\text{Total Working Fund}}$$

iv. Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest expenses against total working fund. A high ratio indicates higher interest expenses on total working fund and vice-versa. This ratio is calculated by dividing total interest paid by total working fund.

$$\text{Total Interest Paid to Total Working Capital Fund Ratio} = \frac{\text{Total Interest Paid}}{\text{Total Working Fund}}$$

v. Return on Equity Ratio (ROE)

The ratio measures how efficiently the banks have used the funds of the owners. The ratio is calculated by dividing net profit by total equity capital (net worth). This can be started as,

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity Capital}}$$

3.5.2 Statistical Tools

Statistical tools help to find out the trends of financial position of the bank. It also analyzes the relationship between variables and helps banks to make appropriate investment policy regarding to profit maximization and deposit collection, fund utilization through providing loan & advances or investment on other companies. Ranges of statistical tools are also used to analyze the collected data and to achieve the objectives of the study. Simple analytical tools such as standard deviation, Karl Pearson's coefficient of correlation, trend analysis adopted which are as follows:

3.5.2.1 Percentile Increment

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

3.5.2.2 Arithmetic Mean Average

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

3.5.2.3 Standard Deviation (σ)

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values

3.5.2.4 Coefficient of Correlation (r)

Correlation analysis contributes to the understanding of economic behavior, aids in locating the critically important variables on which others depend, may reveal to the economist the connections by which disturbances spread and suggest to him the paths through which stabilizing forces may become effective. (W.A. Neiswanger) The coefficient of correlation measures the direction of relationship between the two sets of figures. It is the square root of the coefficient of determination. Two variables are said to be correlated if the change in one variable results in a corresponding change in the other variable. There is positive and negative correlation. If the values of the two variables deviate in the same direction i.e. the increase in the values of one variable results, on an average, in a corresponding increase in the value of the other value or if a decrease in the values of one variable results, on an average, in a corresponding decrease in the values of the other variable, correlation is said to be positive or direct. On the other hand correlation is said to be negative or inverse if the variables deviate in the opposite direction i.e. if the increase (decrease) in the values of one variable results, on the average, in a corresponding decrease (increase) in the values of the other variable. In this study coefficient of correlation is calculated between a MVPS and BVPS, ROE and HPR. The degree of association between the two variables, say x and y and is defined by correlation coefficient (r).

$$r = \frac{N\sum XY - \sum X.\sum Y}{\sqrt{N.\sum X^2 - \left(\sum X\right)^2}.\sqrt{N.\sum Y^2 - \left(\sum Y\right)^2}}$$

Where,

N=the no. of pair of observation

X= Dependent Variable

Y= Independent Variable

The value of ‘r’ lies between -1 to +1 and if r=1, there is perfect positive relationship. If r=-1, there is perfect negative relationship. If r=0, there is no correlation at all.

3.5.2.5Coefficient of Determination (r^2)

The coefficient of determination is the measure of the degree of linear association or correlation between two variables, one of which happens to be independent and the other dependent variable. It measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have a value ranging from 0 to 1.

$$r^2 = \frac{\text{Explained Variation}}{\text{Total Variation}}$$

3.5.2.6 Probable Error (PE)

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

$$PE\ X 0.6745 \frac{1 - r^2}{\sqrt{N}}$$

Where, r^2 = Coefficient of Determination

N = the no. of pair of observation

1. If the value of r is less than probable error there is no evidence of correlation i.e. value of r is not at all significant.
2. If the value of r is more than six times the probable error coefficient of correlation is practically certain i.e. the value of r is significant.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

This chapter includes the analysis and result of gathered data with a view to assessing financial performance and profit planning of the bank for the period of five years. In this chapter, the data are presented, calculated and analyzed. Presentations of data have been made through table and charts. The secondary data is used for the purpose and the data represents the duration of five years (2005/06 to 2009/010). The details of calculation are shown in the respective appendix.

4.2 Financial Tools

Profit Planning is the act of identifying the financial strength and weakness of the organization presenting the relationship between the items of balance sheet. The important and needed financial ratios and indicators, which are to be calculated for the purpose of this study, are mentioned below:

- Financial Indicators
- Liquidity Ratio
- Assets management Ratio
- Profitability Ratio

4.2.1 Financial Indicators

These indicators are the main variables which show the overall financial position of the bank. Trend of these variables plays important role in profit planning and control. The important indicators are presented below.

A. Operating Profit

Table 4.1 presents the operating profit pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, operating profit of NIC is in increasing trend. The growth of operating profit in the year 2009/ 10 is more than three times of the base year 20005/06. The mean of operating profit in the five years is 425.5 NRP, millions and the scattering of the figure is 41.11%. The ARPC of operating profit during five years seems to be nearly constant. The growth rate is 27.83%

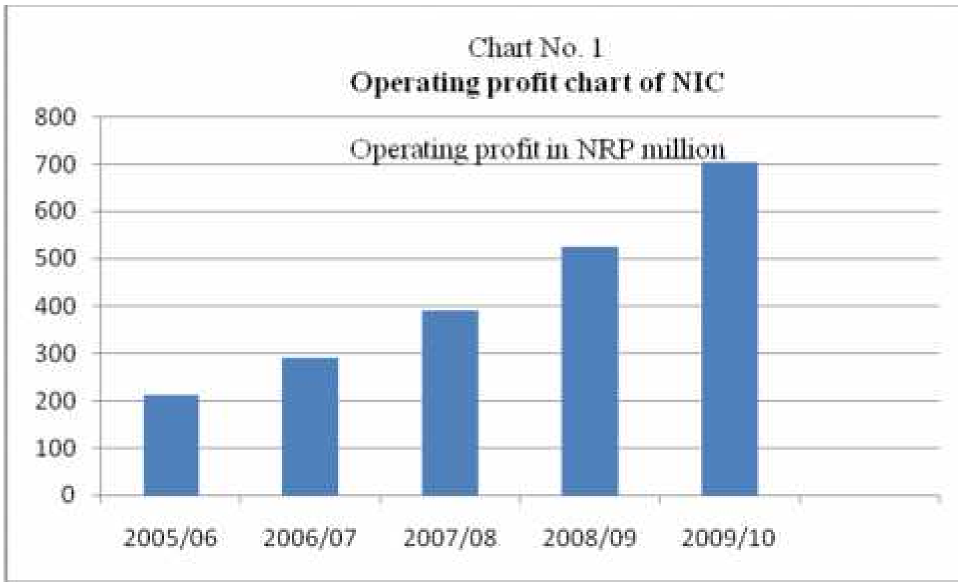

Table 4.1

Operating Profit

Fiscal Year	Operating Profit (NPR Millions)	Index (%)	ARPC(Annual Rate Percentage Change) (%)
2005/06	212	-	-
2006/07	291	137.26	37.26
2007/08	393	185.37	35.05
2008/09	526	248.11	33.84
2009/10	705	322.54	34.03
Mean	425.5		
Standard Deviation	174.9		
Coefficient Of Variation	41.11%		
Growth Rate	27.83%		

B. Net Profit

Table 4.2 presents the Net profit pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, Net profit of NIC is increasing trend. The growth of Net profit in the year 2009/ 10 is more than four times of the base year 20005/06. The mean of NP in the five years is 253.2 NRP, millions and the scattering of the figure is 48.75%. The ARPC of net profit during five years seems to be fluctuating. The growth rate is 37.85%

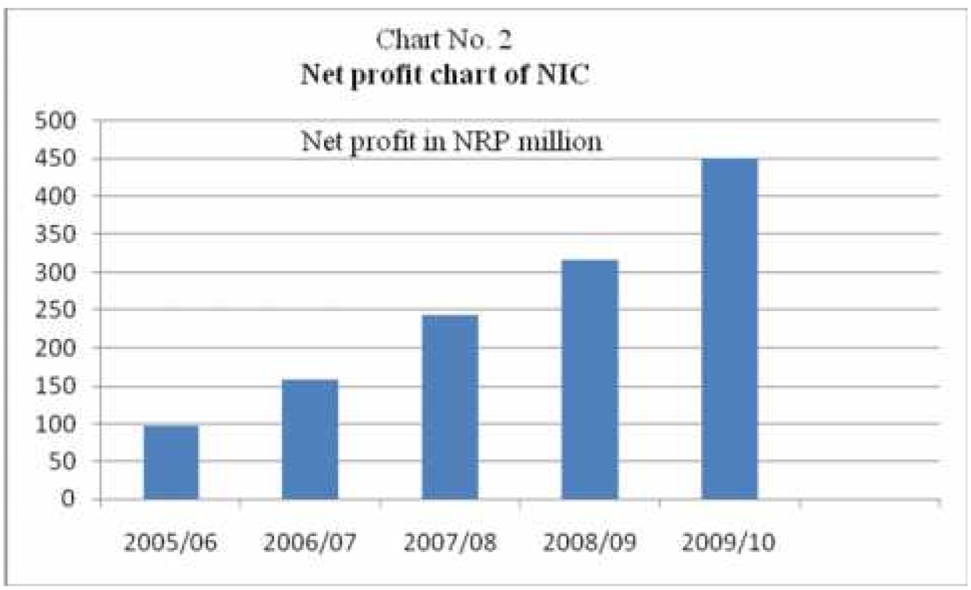

Table 4.2

Net Profit

Fiscal Year	Net Profit (NPR Millions)	Index (%)	ARPC(Annual Rate Percentage Change)%
2005/06	97	-	-
2006/07	159	164	64
2007/08	243	250.5	52.83
2008/09	317	326.8	30.45
2009/10	450	464	42
Mean	253.2		
Standard Deviation	123.43		
Coefficient Of Variation	48.75%		
Growth Rate	37.85%		

C. Total Assets

Table 4.3 presents the total assets pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, total asset of NIC is increasing trend. The growth of total assets in the year 2009/ 10 is nearly two times of the base year 20005/06. The mean of total assets in the five years is 15272.4 NRP, millions and the scattering of the figure is 25.23%. The ARPC of total assets during five years seems to be fluctuating. The growth rate is 14.80%

Table 4.3

Total Assets

Fiscal Year	Total Assets (NPR Millions)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	10384	-	-
2006/07	11679	112.47	12.47
2007/08	15239	146.75	30.48
2008/09	18751	180.57	23.04
2009/10	20309	195.58	8.03
Mean	15272.4		
Standard Deviation	3854.3		
Coefficient Of Variation	25.23%		
Growth Rate	14.80%		

D. Loan and Advances

Table 4.4 presents the loan and advances pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, loan and advances of NIC is increasing trend during first four year where as in the year 2009/10 it is decreased. The mean of loan and advances in the five years is 10868.2 NRP, millions and the scattering of the figure is 23.5%. The ARPC of loan and advances during first four years seems to be slightly fluctuating where as in the final year it is drastically decreased to -7.09%. The growth rate is 14.51%

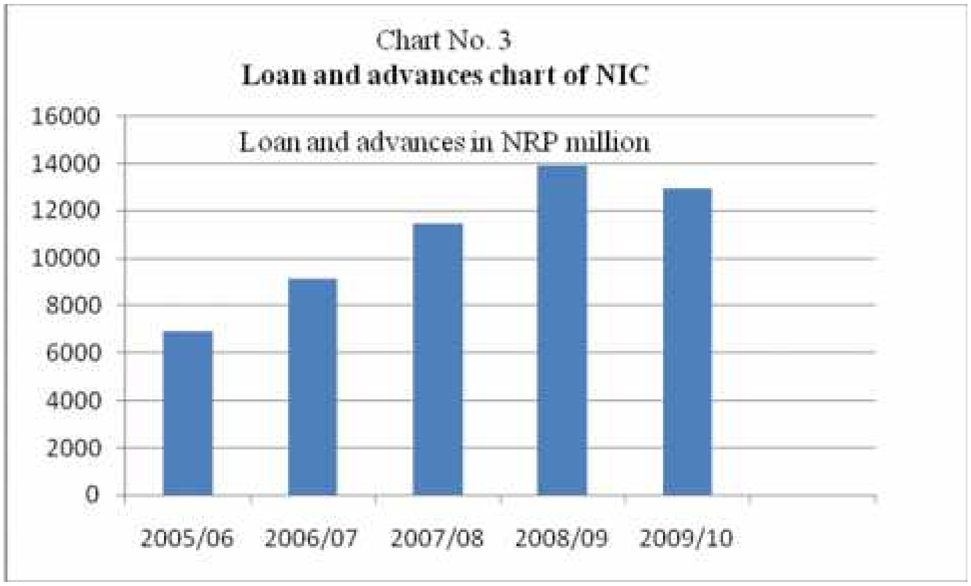

Table 4.4

Loan and Advances

Fiscal Year	Loan and Advances (NPR Millions)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	6902	-	-
2006/07	9129	132.26	32.26
2007/08	11465	166.11	26
2008/09	13916	201.62	21.38
2009/10	12929	187.32	-7.09
Mean	10868.2		
Standard Deviation	2555.3		
Coefficient Of Variation	23.5%		
Growth Rate	14.51%		

E. Deposits and Borrowings

Table 4.5 presents the deposits and borrowing pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, deposits and borrowing of NIC is increasing trend. The deposits and borrowing in the year 2009/ 10 is nearly two times of the base year 20005/06. The mean of deposits and borrowing in the five years is 13399.2 NRP, millions and the scattering of the figure is 24.25%. The ARPC of deposits and borrowing during five years seems to be fluctuating. The growth rate is 14.36%

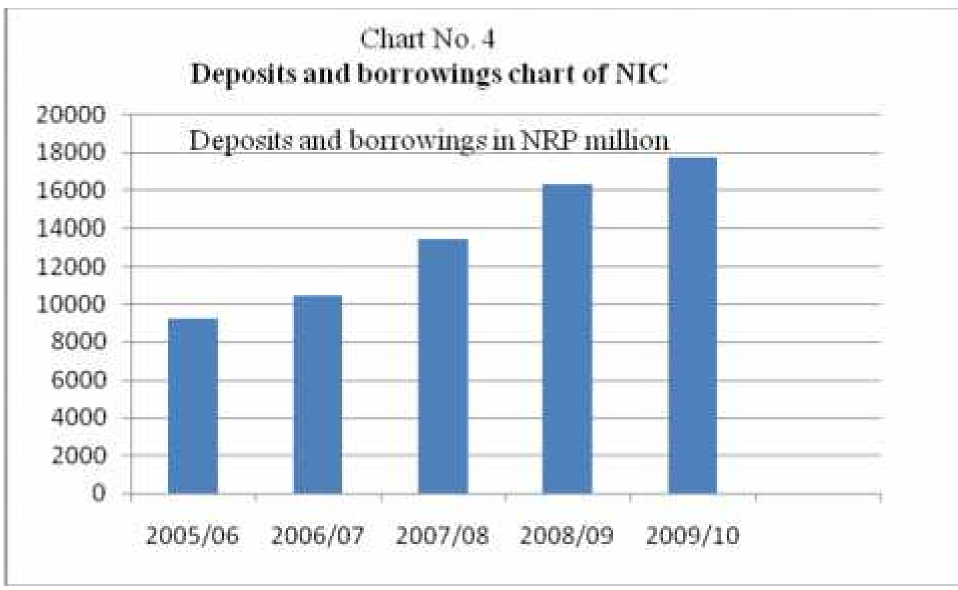

Table 4.5

Deposits and Borrowings

Fiscal Year	Deposits and Borrowing (NPR Millions)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	9224	-	-
2006/07	10420	113	13
2007/08	13420	145.5	28.8
2008/09	16240	176	21
2009/10	17692	192	9
Mean	13399.2		
Standard Deviation	3250		
Coefficient Of Variation	24.25%		
Growth Rate	14.36%		

F. Capital Adequacy Ratio

Table 4.6 presents the capital adequacy ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, Capital adequacy ratio of NIC is in nearly constant trend, slight increment and decrement. The mean of capital adequacy ratio in the five years is 12.84 and the scattering of the figure is 3.741%. The ARPC of capital adequacy ratio during five years seems to be slightly fluctuating. The growth rate is -3.04%

Table 4.6

Capital Adequacy Ratio

Fiscal Year	Capital Adequacy Ratio %	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	13.54	-	-
2006/07	12.20	90	-10
2007/08	13.11	97	7.45
2008/09	12.42	91.73	-5.26
2009/10	12.92	95.4	4
Mean	12.84		
Standard Deviation	0.48		
Coefficient Of Variation	3.74%		
Growth Rate	-3.04%		

G. Non-performing Assets

Table 4.7 presents the non-performing assets pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, non-performing assets of NIC is decreasing trend where as it is slightly increased in the year 2008/09. The mean of non-performing assets in the five years is 1.244 and the scattering of the figure is 55.431%. The ARPC during five years seems to be fluctuating, increment and decrement and the growth rate is -18.85%

Table 4.7

Non-performing Assets

Fiscal Year	Non-performing Assets %	Index(%)	ARPC(Annual Rate Percentage Change)(%)
2005/06	2.60	-	-
2006/07	1.11	42.7	-57.30
2007/08	0.86	33	-22.5
2008/09	0.93	35.77	8.14
2009/10	0.72	27.7	-22.6
Mean	1.244		
Standard Deviation	0.69		
Coefficient Of Variation	55.43%		
Growth Rate	-18.85%		

H. Shareholders fund

Table 4.8 presents the shareholder fund pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, shareholder fund of NIC is increasing trend. The shareholder fund in the year 2009/ 10 is more than two times of the base year 20005/06. The mean of shareholder fund in the five years is 1282.8 NRP, millions and the scattering of the figure is 31.73%. The ARPC during five years seems to be fluctuating increment and the growth rate is 19.05%

Table 4.8

Shareholders Fund

Fiscal Year	Shareholders Fund (NPR Millions)	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	767	-	-
2006/07	919	119.8	19.8
2007/08	1303	170	41.78
2008/09	1660	216.4	27.4
2009/10	1765	230	6.3
Mean	1282.8		
Standard Deviation	407.08		
Coefficient Of Variation	31.73%		
Growth Rate	19.05%		

I. Earning per share

Table 4.9 presents the earning per share pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, earning per share of NIC is increasing trend. The earning per share in the year 2009/ 10 is more than two times of the base year 20005/06. The mean of earning per share in the five years is 1282.8 NRP, millions and the scattering of the figure is 23%. The ARPC during five years seems to be fluctuating increment and the growth rate is 17.48%

Table 4.9

Earning Per Share

Fiscal Year	Earning per Share (NPR)	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	16.10	-	-
2006/07	24.01	149	49
2007/08	25.75	160	7.25
2008/09	27.83	171.66	8
2009/10	34.30	191.85	23.2
Mean	25.6		
Standard Deviation	5.89		
Coefficient Of Variation	23%		
Growth Rate	17.48%		

J. Dividend payout ratio

Table 4.10 presents the dividend payout ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, dividend payout ratio of NIC is fluctuating trend, in the second and last year it is increased where as in third and fourth year it becomes constant and decreased also. The dividend payout ratio in the year 2009/ 10 is more than two times of the base year 20005/06. The mean of dividend payout ratio in the five years is 19 and the scattering of the figure is 28.24%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 1.66%

Table 4.10

Dividend Payout Ratio

Fiscal Year	Dividend Payout Ratio %	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	10.53	-	-
2006/07	21.05	200	100
2007/08	21.05	200	0
2008/09	15.79	150	-25
2009/10	26.32	250	-66.7
Mean	19		
Standard Deviation	5.3671		
Coefficient Of Variation	28.24%		
Growth Rate	1.66%		

4.2.2 Liquidity Ratios

Liquidity ratio measures the ability of the firm to meet its current obligations. A commercial bank must maintain its satisfactory liquidity position to meet the credit need of the community

The following ratios are evaluated and interpreted under liquidity ratios.

(i) Current Ratio

Table 4.11 presents the current ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the current ratio of NIC is increasing trend whereas it is decreased in the year 2007/08. The current ratio in the year 2009/ 10 is recovered to 1.2 indicating the better liquidity position. The mean of the current ratio in the five years is 1.1002 and the scattering of the figure is 4.56%. The ARPC of CR during five years seems to be slightly fluctuating increment and decrement and the growth rate is 2.35%

Table 4.11

Current Ratio Pattern of NIC

Fiscal Year	Current ratio	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	1.073	-	-
2006/07	1.082	100.83	0.838
2007/08	1.066	99.34	-1.478%
2008/09	1.08	100.65	1.313%
2009/10	1.2	111.83	11.11%
Mean	1.1002		
Standard Deviation	0.050217		
Coefficient Of Variation	4.56%		
Growth Rate	2.35%		

Sources: Appendix 1

(ii) Cash and Bank Balance to Total Deposit Ratio (Cash Reserve Ratio)

Table 4.12 shows the cash and bank balance to total deposit ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the cash and bank balance to total deposit ratio of NIC is increasing trend whereas it is decreased in the year 2006/07 indicating lower cash reserve at that time. The cash and bank balance to total deposit ratio in the year 2009/ 10 is recovered to 13 indicating the better cash reserve position where as it was only 8.54 in the base year. The mean of the cash and bank balance to total deposit ratio in the five years is 9.178 and the scattering of the figure is 24.58%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 12.918%

Table 4.12

Cash and Bank Balance to total deposit Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	8.54	-	-
2006/07	5.95	69.67	-30.32
2007/08	9.1	106.55	52.94
2008/09	9.3	108.9	2.19
2009/10	13	152.22	39.78
Mean	9.178		
Standard Deviation	2.256		
Coefficient Of Variation	24.58%		
Growth Rate	12.918%		

Sources: Appendix 1

(iii) Cash and Bank Balance to Current Assets Ratio

This ratio also shows the cash position of the bank with respect to the current assets. Table 4.13 shows the cash and bank balance to current assets ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the cash and bank balance to current assets ratio of NIC is fluctuating trend The cash and bank balance to current assets ratio in the year 2009/ 10 is recovered to 10.5 indicating the better cash reserve position where as it was only 7..79 in the base year. Furthermore in the year2006/07 it has been decreased to 5.44 .The mean of the cash and bank balance to current assets ratio in the five years is 8.02 and the scattering of the figure is 20%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 9.846%

Table 4.13

Cash and Bank Balance to Current assets Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	7.79	-	-
2006/07	5.44	69.83	-30.16
2007/08	8.36	107.32	53.67
2008/09	8.32	106.80	-0.478
2009/10	10.5	134.78	26.20
Mean	8.02		
Standard Deviation	1.615		
Coefficient Of Variation	20%		
Growth Rate	9.846%		

Sources: Appendix 1

(iv) Investment on Government Securities to Current Assets Ratio

Table 4.14 shows the investment on government securities to current assets ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the investment on government securities to current assets ratio of NIC is decreasing trend in the first two years and increasing trend in the last two years. The investment on government securities to current assets ratio in the year 2009/ 10 is recovered to 20 indicating the higher investment on government securities where as it was only 8.54 in the base year. Furthermore in the year 2007/08 it has been decreased to 10.8.The mean of the investment on government securities to current assets ratio in the five years is 14.78 and the scattering of the figure is 24.62%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 6.15%

Table 4.14

Investment on government securities to Current assets Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	18.27	-	-
2006/07	12.37	67.70	-32.29
2007/08	10.8	59.11	-12.69
2008/09	12.5	68.41	15.74
2009/10	20	109.46	60
Mean	14.78		
Standard Deviation	3.64		
Coefficient Of Variation	24.62%		
Growth Rate	6.15%		

Sources: Appendix 1

(v) Loan and Advances to Current Assets Ratio

Table 4.15 shows the loan and advances to current assets ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the loan and advances to current assets ratio of NIC is increased in the first year then it is continuously decreasing trend. The loan and advances to current assets ratio in the year 2009/ 10 is decreased to 64 where as it was 69.05 in the base year. The mean of the loan and advances to current assets ratio in the five years is 74.124 and the scattering of the figure is 8.47%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is -0.8%

Table 4.15

Loan and Advances to Current assets Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	69.05	-	-
2006/07	80.93	117.20	17.20
2007/08	78.9	114.26	-2.5
2008/09	77.74	112.58	-1.47
2009/10	64	92.68	-17.67
Mean	74.124		
Standard Deviation	6.48		
Coefficient Of Variation	8.47%		
Growth Rate	-0.8%		

Sources: Appendix 1

4.2.3 Assets Management Ratio (Activity Ratio)

Assets management ratio measures the efficiency of the bank to manage its assets in profitable and satisfactory manner. The ratios are presented below.

i) Loan and Advances to Total Deposit Ratio.

Table 4.16 shows the loan and advances to total deposit ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the loan and advances to total deposit ratio of NIC is fluctuating trend. .The mean of the loan and advances to total deposit ratio in the five years is 83.25 and the scattering of the figure is 6%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 4.88

Table 4.16

Loan and Advances to total deposit Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	75.71	-	-
2006/07	88.60	117.02	17.02
2007/08	85.94	113.51	-3
2008/09	87	114.91	1.23
2009/10	79	104.34	9.19
Mean	83.25		
Standard Deviation	5		
Coefficient Of Variation	6%		
Growth Rate	4.88%		

Sources: Appendix 1

(ii) Total Investment to Total Deposit Ratio

Table 4.17 shows the total investment to total deposit ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the total investment to total deposit ratio of NIC is drastically decreased to 15.88 in 2006/07 then it is in increasing trend. The total investment to total deposit ratio in the year 2009/ 10 is recovered to 31 where as it was 28.29 in the base year. Furthermore in the year 2006/07 it has been decreased to 15.88.The mean of the total investment to total deposit ratio in the five years is 22.44 and the slattern of the figure is 26.93%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 7.4%

Table 4.17

Total Investment to total deposit Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	28.29	-	-
2006/07	15.88	56.13	- 43.86
2007/08	17.66	62.42	11.20
2008/09	19.4	68.57	9.85
2009/10	31	109.58	59.80
Mean	22.44		
Standard Deviation	6.04		
Coefficient Of Variation	26.93%		
Growth Rate	7.4%		

Sources: Appendix 1

(iii) Loan & Advances to Total Working Fund Ratio

Table 4.18 shows the loan and advances to total working fund ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the loan and advances to total working fund ratio of NIC is drastically increased to 76.38 in 2006/07 then it is in decreasing trend..The mean of the loan and advances to total working fund ratio in the five years is 69.88 and the scattering of the figure is 8%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 0.02%

Table 4.18

Loan and Advances to total Working fund Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	63.91	-	-
2006/07	76.38	119.51	19.51
2007/08	73.8	115.47	-3.92
2008/09	72.8	113.91	-1.35
2009/10	62.5	97.8	-14.14%
Mean	69.88		
Standard Deviation	5.6		
Coefficient Of Variation	8%		
Growth Rate	0.02%		

Sources: Appendix 1

(iv) Investment on Government Securities to Total Working Fund Ratio

Table 4.19 shows the investment on government securities to total working fund ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the investment on government securities to total working fund ratio of NIC is drastically decreased to 9.45 in 2006/07 then it is in increasing trend. The investment on government securities to total working fund ratio in the year 2009/ 10 is recovered to 19.6 where as it was 16.91 in the base year. The mean of the investment on government securities to total working fund ratio in the five years is 13.62 and the scattering of the figure is 29.13%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 8.97%

Table 4.19

Investment on government securities to total Working fund Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	16.91	-	-
2006/07	9.45	55.88	-44.11
2007/08	10.14	60	7.30
2008/09	12	71	18.34
2009/10	19.6	115.9	63.33
Mean	13.62		
Standard Deviation	3.97		
Coefficient Of Variation	29.13%		
Growth Rate	8.97%		

Sources: Appendix 1

(v) Investment on shares and Debentures to Total Working Fund Ratio

Table 4.20 shows the investment on share and debenture to total working fund ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the investment on share and debenture to total working fund ratio of NIC is fluctuating trend. The mean of investment on share and debenture to total working fund ratio in the five years is 0.121 and the scattering of the figure is 43.71%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 135.88%

Table 4.20

Investment on share and debenture to total Working fund Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	0.018	-	-
2006/07	0.14	777.77	677.77
2007/08	0.17	944.44	21.43
2008/09	0.14	777.77	-17.64
2009/10	0.137	761.11	-2.14
Mean	0.121		
Standard Deviation	0.053		
Coefficient Of Variation	43.71%		
Growth Rate	135.88%		

Sources: Appendix 1

4.2.4 Profitability Ratio

Profit is the lock bone of the financial institutions and commercial banks. Profitability ratios are the best indicators of overall efficiency. Here mainly those ratios are presented and analyzed which are related with profit as well as investments.

i)Return on Total Working Fund Ratio

Table 4.21 shows the return on total working fund ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the return on total working fund ratio of NIC is in increasing trend. The return on total working fund ratio in the year 2009/ 10 is recovered to 2.2 indicating increasing return where as it was only 0.94 in the base year. The mean of the return on total working fund ratio in the five years is 1.558 and the scattering of the figure is 26.53%. The ARPC during five years seems to be in fluctuating increment trend and the growth rate is 19.58%

Table 4.21

Return on total Working fund Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	0.94	-	-
2006/07	1.36	144.68	44.68
2007/08	1.59	169.15	16.91
2008/09	1.7	180.85	6.91
2009/10	2.2	234.04	29.41
Mean	1.558		
Standard Deviation	0.413		
Coefficient Of Variation	26.53%		
Growth Rate	19.58%		

Sources: Appendix 1

(ii) Total Interest Earned to Total Working Fund Ratio

Table 4.21 shows the total interest earned to total working fund ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the total interest earned to total working fund ratio of NIC is in increasing trend where as it is slightly decreased in2007/08 to 6.11. The total interest earned to total working fund ratio in the year 2009/ 10 is recovered to 8.75 indicating increasing earning where as it was only 5.58 in the base year. The mean of the total interest earned to total working fund ratio in the five years is 6.7 and the scattering of the figure is 16.43%. The ARPC during five years seems to be in fluctuating increment and decrement trend and the growth rate is 10%

Table 4.22

Total interest earned to total working fund Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	5.58	-	-
2006/07	6.21	111.29	11.29
2007/08	6.11	109.5	-1.61
2008/09	6.84	122.58	11.94
2009/10	8.75	156.81	27.92
Mean	6.7		
Standard Deviation	1.1		
Coefficient Of Variation	16.43%		
Growth Rate	10%		

Sources: Appendix 1

(iii) Total Interest Paid to Total Working Fund Ratio

Table 4.20 shows the total interest paid to total working fund ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the total interest paid to total working fund ratio of NIC is fluctuating trend. The mean of total interest paid to total working fund ratio in the five years is 3.9 and the scattering of the figure is 20%. The ARPC during five years seems to be fluctuating increment and decrement and the growth rate is 13.66%

Table 4.23

Total interest paid to total working fund Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	3.27	-	-
2006/07	4.33	132.41	32.41
2007/08	2.76	84.40	-36.25
2008/09	4.09	125.07	48.18
2009/10	5.07	155.04	23.96
Mean	3.9		
Standard Deviation	0.81		
Coefficient Of Variation	20%		
Growth Rate	13.66%		

Sources: Appendix 1

(iv) Return on Loan & Advances Ratio

Table 4.24 shows the return on loan and advances ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the return on loan and advances ratio of NIC is in increasing trend. The return on loan and advances ratio in the year 2009/ 10 is recovered to 3.5 indicating increasing return where as it was only 1.46 in the base year. The mean of the return on loan and advances ratio in the five years is 2.24 and the scattering of the figure is 31.04%. The ARPC during five years seems to be in fluctuating increment trend and the growth rate is 20.38%

Table 4.24

Return on Loan and Advances Ratio Pattern of NIC

Fiscal Year	Ratio (%)	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	1.46	-	-
2006/07	1.78	121.91	21.91
2007/08	2.16	147.94	21.34
2008/09	2.3	157.53	6.48
2009/10	3.5	239.72	52.17
Mean	2.24		
Standard Deviation	0.69		
Coefficient Of Variation	31.04%		
Growth Rate	20.38%		

Sources: Appendix 1

(v) Return on Equity

Table 4.25 shows the return on equity ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the return on equity ratio of NIC is in increasing trend. The ROE ratio in the year 2009/ 10 is recovered to 27.09 indicating increasing return where as it was only14.12 in the base year. The mean of the return on equity ratio in the five years is 21.7 and the scattering of the figure is 20%. The ARPC during five years seems to be in fluctuating increment trend and the growth rate is 14.96%

Table 4.25

Return on Equity Ratio pattern of NIC

Fiscal Year	Return on Equity %	Index (%)	ARPC (Annual Rate Percentage Change)(%)
2005/06	14.12	-	-
2006/07	20.68	146.45	46.45
2007/08	22.57	160	9.1
2008/09	24.23	171.66	7.35
2009/10	27.09	191.85	11.8
Mean	21.7		
Standard Deviation	4.36		
Coefficient Of Variation	20%		
Growth Rate	14.96%		

Sources: Appendix 1

vi) Cost Income Ratio

Table 4.26 shows the cost income ratio pattern of NIC for the period from2005/06 to 2009/10. Year 2005/06 has been considered as the base year. From the figure of table, the cost income ratio of NIC is in decreasing trend indicating lower cost in comparison to income. In2005/06 cost income ratio is 32.67 where as it was decreased to26.67 in 2009/10 The mean of cost income ratio in the five years is 28.7 and the scattering of the figure is 7.5%. The ARPC during five years seems to be in decreasing trend and the growth rate is -3.89%

Table 4.26

Cost income Ratio pattern of NIC

Fiscal Year	Cost Income Ratio %	Index (%)	ARPC (Annual Rate Percentage Change) (%)
2005/06	32.67	-	-
2006/07	29.09	89.04	-10.96
2007/08	28.06	86	-3.5
2008/09	26.99	82.6	-3.8
2009/10	26.67	81.6	-1.2
Mean	28.7		
Standard Deviation	2.16		
Coefficient Of Variation	7.5%		
Growth Rate	-3.89%		

4.3 Statistical Tools

Under this heading some statistical tools such as co-efficient of correlation analysis between different various, trend analysis of deposits, loan and advances, investment and net profit as well as hypothesis test are used to achieve the objectives of the study.

4.3.1. Correlation Coefficient between Financial ratios and indicators

Correlation coefficient analysis indicates the relationship between dependent variables. Correlation coefficient is denoted by 'r' and ranges from +1.0, indicating perfect positive correlation to -1.0, indicating perfect negative perfect correlation. If the correlation coefficient is zero, then the factors are independent or un-correlated.

In this chapter, correlation coefficients between financial indicators and ratios have been calculated. Then results have been analyzed and interpreted and then significance of correlation coefficient has been tested..

4.3.1.1 Correlation coefficient between financial indicators

Table 4.27 shows the correlation coefficient between different financial indicators and 6P.E. value of respective correlation coefficient.

Where,

A= Operating profit

B= Net profit

C= Total assets

D=Loan and advances

E=Deposits and borrowings

F= Non performing assets

G= Shareholders fund

H= Earning per share

I=Dividend payout ratio

Table 4.27

Correlation coefficient Matrix of financial indicators of NIC

Correlation coefficient (r)									
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**
A		1 (0)	0.974 (0.015)	0.869 (0.443)	0.977 (0.082)	-0.742 (0.86)	0.962 (0.134)	0.949 (0.18)	0.679 (0.975)
B			0.973 (0.096)	0.873 (0.430)	0.975 (0.089)	-0.74 (0.023)	0.961 (0.81)	0.958 (0.149)	0.70 (0.923)
C				0.946 (0.19)	1 (0)	-0.742 (0.813)	1 (0)	0.913 (0.299)	0.577 (1.207)
D					0.945 (0.19)	-0.841 (0.52)	0.961 (0.138)	0.88 (0.408)	0.533 (1.29)
E						-0.750 (0.79)	1 (0)	0.920 (0.278)	0.591 (1.17)
F							-0.76 (0.764)	-0.885 (0.39)	-0.831 (0.56)
G								0.907 (0.32)	0.567 (1.22)
H									0.843 (0.52)
I									

- **Value inside the bracket shows the 6P.E. of respective correlation coefficient**

The statistical table 4.27 clearly demonstrates that the degree of relationship between financial indicators. From the table 4.27 it is clearly seen that operating profit and net profit are perfectly positively correlated. It means if net profit is increased by 1 then operating profit is also increased by 1 and correlation coefficient is significant (r>6PE,1>0). Similarly operating profit has high degree of positive correlation with total assets , loan and advances, deposits and borrowings, shareholder fund and earning per share and correlation coefficient is also significant (r<6P.E.). Similarly it has moderate degree of positive correlation with dividend pay out ratio and high degree of negative correlation with non-performing assets.

Again we can clearly see that the correlation coefficient of Net profit with Total assets of NIC is 0.973 which shows the high degree of positive correlation between net profit and total assets. Increase of 1 unit value of Net profit cause 0.973 unit value increases of total assets and decrease of 1 unit of net profit also causes 0.973 unit decreases of total assets. Furthermore Correlation coefficient r is greater than 6P.E, 0.973>0.0964. This indicates the correlation coefficient is significant. This is good indicator for profit of a financial institution. This shows profit is being generated by effective utilization of assets.

Again there is a high degree of positive correlation between net profit and loan and advances. If net profit is increased by 1 unit, Loan and advances will be increase by 0.873 units and vice versa. Again correlation coefficient r is greater than 6P.E. 0.873>0.430. It means correlation coefficient between net profit and loan and advances is significant. This is also a good indicator for profit planning of a financial institution like commercial bank. This shows loan is being properly utilized.

Again There is a high degree of positive correlation between net profit and deposits and borrowing .If net profit is increased by 1 unit, deposits and borrowing will be increase by 0.975 unit and vice versa. Again correlation coefficient r is greater than 6P.E. 0.975>0.0893. It means correlation coefficient between net profit and deposits and borrowing is significant. This is also a good indicator for profit planning of a financial institution like commercial bank. This shows deposits and borrowing is being properly utilized. Again correlation coefficient of Net profit with Shareholders fund of NIC is 0.961 which shows the high degree of positive correlation between net profit and Shareholders fund. Increase of 1 unit value of Net profit cause 0.961 unit value increase of Shareholders fund and decrease of 1 unit of net profit also causes 0.961 unit decrease of Shareholders fund Furthermore Correlation coefficient r is greater than 6P.E, 0.961>0.023. This indicates the correlation coefficient is significant. This is good indicator for profit of a financial institution.

Again correlation coefficient of Net profit with Non-performing assets of NIC is -0.74 which shows the high degree of negative correlation between net profit and Non-performing assets. Increase of 1 unit value of Net profit cause 0.74 unit value decreases of Non-performing assets and decrease of 1 unit of net profit also causes 0.74 unit increases of Non-performing assets This is good indicator for profit of a financial institution. This shows profit is being generated by effective utilization of assets. Furthermore Correlation coefficient r is smaller than 6P.E. This indicates the correlation coefficient is insignificant. Again from the table 4.27 it is seen that there is a high degree of positive correlation between net profit and EPS. net profit is increased by 1 unit, EPS will be increase by 0.958 units and vice versa. Again correlation coefficient r is greater than 6P.E. 0.9585>0.149. It means correlation coefficient between net profit and Earning per share is significant. This is also a good indicator for profit planning of a financial institution like commercial bank. This shows good profit as well as good return to investor of NIC.

Again there is a high degree of positive correlation between net profit and dividend payout ratio. If net profit is increased by 1 unit, dividend pay out ratio will be increase by 0.70 units and vice versa. This is also a good indicator for profit planning of a financial institution like commercial bank. This shows good profit as well as good return to investor of NIC. Again correlation coefficient r is smaller than 6P.E. 0.70<0.923. It means correlation coefficient between net profit and D/P ratio is insignificant.

Again it is seen that Total assets is perfectly positively correlated with deposits and borrowings and shareholders fund. Similarly total assets have high degree of positive correlation with loan and advances and EPS ratio and has moderate degree of of positive correlation with D/P ratio. Furthermore it has negative correlation with non performing assets. Similarly loan and advances has high degree of positive correlation with deposits and borrowings, shareholder fund and EPS, moderate degree of positive correlation with D/P ratio and high degree of negative correlation with non-performing assets. Deposits and borrowings is perfectly positively correlated with shareholder fund. It has high degree of positive correlation with EPS, moderate with D/P ratio and negative correlation with non performing assets. Again non performing assets have high degree of negative correlation with shareholder fund, EPS and D/P ratio. Shareholder fund has high degree of positive correlation with EPS and moderate with D/P ratio. Finally EPS has high degree of positive correlation with D/P ratio and correlation coefficient is significant(r>6P.E., 0.843>0.52)

4.3.1.2. Correlation coefficient between liquidity ratios

Table 4.28

	Current Ratio		Cash & bank balance to total deposit ratio		Investment on government securities to current assets ratio		Loan and advances to current assets ratio	
	r	6 P. E.	r	6P.E.	r	6P.E.	r	6P.E.
Current Ratio			0.808	0.628	0.712	0.917	-0.757	0.772
Cash & bank balance to total deposit ratio					0.621	1.11	-0.783	0.70
Investment on government securities to current assets ratio							-0.967	0.11
Loan and advances to current assets ratio								

Table 4.29 shows the correlation between liquidity ratios. Current ratio has high degree of positive correlation with cash and bank balance to total deposits ratio and investment on government securities to current assets ratio and it has high degree of negative correlation with loan and advances to current assets ratio and correlation coefficient is significant. Similarly cash and bank balance to total deposit ratio has moderate degree of positive correlation with investment on

government securities to current assets ratio and high degree of negative correlation with loan and advances to current assets ratio. Again investment on government securities to current assets ratio has high degree of negative correlation with loan advances to current assets ratio.

4.3.1.3. Correlation coefficient between Assets Management ratios

Table 4.29

	Loan and advances to total deposit ratio		Total investment to total deposits ratio		Loan and advances to total working fund ratio		Investment on government securities to total working fund ratio	
	r	6P.E.	r	6P.E.	r	6P.E.	r	6P.E.
Loan and advances to total deposit ratio			-0.926	0.25	0.95	0.176	-0.887	0.38
Total investment to total deposits ratio					-1	0	1	0
Loan and advances to total working fund							-0.985	0.053
Investment on government securities to total working fund ratio								

From the table 4.30 it is seen that Loan and advances to total deposits ratio has high degree of negative correlation with total investment to total deposits ratio and investment on government securities to total working fund ratio and it has high degree of positive correlation with loan and advance to total working fund ratio. Again total investment to total deposit ratio is perfectly positively correlated with investment on government securities to total working fund ratio and perfectly negatively correlated with loan and advances to total working fund ratio. Similarly loan and advances to total working fund ratio has high degree of negative correlation with investment on government securities to total working fund ratio.

4.3.1.4 Correlation coefficient between Profitability ratios

Table 4.30

	Return on total working fund ratio		Total interest earned to total working fund ratio		Total interest paid to total working fund ratio		Return on loan and advances	
	r	6P.E.	r	6P.E.	r	6P.E.	r	6P.E.
Return on total working fund ratio			0.925	0.26	0.642	1.0639	0.965	0.124
Total interest earned to total working fund ratio					0.804	0.64	0.976	0.085
Total interest paid to total working fund ratio							0.663	1.014
Return on loan and advances								

From the table 4.31 it is seen that Return on total working fund ratio has high degree of positive correlation with total interest earned to total working fund ratio and return on loan and advances ratio and has moderate degree of positive correlation with total interest paid to total working fund ratio. Total interest earned to total working fund ratio has high degree of positive correlation with total interest paid to total working fund ratio and return on loan and advances ratio. Similarly total interest paid to total working fund ratio and return on loan and advances ratio has moderate degree of positive correlation and the correlation coefficient is insignificant(6P.E.>r)

4.4 Major Findings of the Study

Having completed the basic analysis required for this study, the final and the most important task of the researcher is to enlist the findings. This will give meaning to the desired result. Summary of the major findings of this study are presented below.

Financial Indicators

- It is seen that the operating profit of NIC during five years (2005/06-2009/10) is in continuously increasing trend and grow rate is also nearly constant in each year. This shows the good efficiency of the management team and proper investment of the assets and fund of the bank. This indicates the good decision making of managerial level and successful implementation in the operation level.
- The net profit of the bank is also in increasing trend, however increasing rate is different. Increasing rate is affected by market condition, government policy and tax policy also. This shows bank management team is successful in both managerial decision making level and operation level in profit planning and control.
- Total assets contain all type of assets. Main objective of a commercial bank is effective investment of assets to get reasonable profit. Total assets of the bank are in increasing trend in every year and profit is also increasing every year. It means bank is successful to utilize the increasing assets to generate profit and assets as well as deposits are being increased because of good financial position of the bank in the market.
- Loan and advances of the bank is also in increasing trend every year except in the last year. However profit is increasing in each year. It means decrement of loan and advanced didn't affect the profit. In the last year loan is decreased because

bank has cut down the risky and less productive loan and invested on profit generating schemes.

- Non-performing assets is decreasing every year except in 2008/09. This is good efficiency of both managerial and operational level team. As non-performing assets doesn't have direct contribution to profit it should be minimized. However because of goodwill, impression and marketing certain assets always becomes non-performing assets.
- Shareholder fund of the bank is also in increasing trend in every year. This indicates good profit as well as good return to investor. This tends to increment of share value in the market and public are interested to invest in share as well to deposit fund in bank.
- Earning per share of the bank is also in increasing trend in every year. This indicates good profit as well as good return to investor. This tends to increment of share value in the market and public are interested to invest in share as well to deposit fund in bank.
- Dividend pay out ratio is also in increasing trend except in the year 2008/09. This may be because of financial market condition also. However it maintain good ratio in compare to other in 2009/10. This indicates good profit as well as good return to investor.

Liquidity ratios

- Current ratio of the bank is more than 1 every year. It means current assets are always more than current liabilities. Furthermore current ratio is recovered to1.2 in year 2009/10. This is ok but not satisfactory liquidity position. Widely accepted current ratio is 2:1.Howevr in the Nepalese market of bank it is quite good and bank is able to meet the customer demand and its short term liabilities they are likely to mature in short period and other current obligation.
- Cash and bank balance to total deposit or cash reserve ratio of the bank is in increasing trend except in the year 2006/07 where it is slightly decreased

indicating ok amount of cash reserve. At the year 2009/10 it has enough cash reserve to meet the customer demand and its short time liabilities.

- Cash and bank balance with respect to current assets has fluctuating trend, both increasing and decreasing. Bank has not satisfactory bank balance, but it is ok. Ratio is fluctuated because of the fluctuation of other current assets.
- Investment on government securities with respect to current assets is also of fluctuating trend during five years. Fluctuation because of fluctuation of other current assets Investment on government securities is not satisfactory but ok. However it maintain good ratio in 2009/10 indicating good liquidity position.
- Loan and advances with respect to current assets is in decreasing trend except in 2006/07. It is decreased; however the profit is in increasing trend. It means comparatively loan and advances increasing ratio is decreased because bank itself is capable to generate the required profit and the necessary assets is maintained from the other sources. Collection of excessive assets is also not good. Assets should be such that it can be effectively utilized to generate profit, otherwise non-performing assets is increased.

Assets management ratios

- Loan and advances with respect to total deposit is in increasing trend except in the year 2007/08. As profit is increasing, this indicates that increasing loan and advances is effectively utilized to generate the profit. This shows the success of both managerial and operational level team of NIC.
- Total investment to total deposit ratio is in increasing trend except it is decreased in the first year. For the good financial position of the bank this ratio is required in increasing trend. But some time it is decreased for the good return. Because only investment is not but the investment with good return is the objective of a bank. Management always should make research for the investment opportunities in the market. This ratio some time decreased while making cut down of investment with lower return.

- Loan and advances with respect to total working fund is increased in the first year then it is continuously decreasing. This shows from the year 2006/07 the needed total working fund contains comparatively decreased rate of increasing loan and advances. However the profit is not decreasing It means comparatively lower amount of loan and advances is used with respect to TWF after2006/07. Total working fund is also not decreasing, it means required amount of working fund comparatively is taken more from another source rather than loan advances, where as loan and advances itself is in increasing trend except in 2009/10
- Investment on government securities to total working fund is in increasing trend except in the year2006/07, where it is decreased. High investment on government securities shows the good liquidity position of the bank. It is good until the profit is not affected. If profit is affected then investment on government securities should cut down and invest on other good returnable opportunities.
- Investment on share on debenture with respect to total working fund is in fluctuating trend. As there is not large amount of investment on share and debenture, it doesn't have great effect on financial position of the bank. However investing on share of right company at right time good profit can be earned.

Profitability Ratios

- Return on total working fund is in continuously increasing trend. This is good indicator for profit planning and controls both net profit and total working fund is continuously increasing. It means working fund is being effectively utilized to earn the increasing profit. This reflects the good image of bank and good efficiency of managerial and operational level team of the bank
- Total interest earned to total working fund is also in increasing trend except in the year2007/08 where it is slightly decreased. It may be because of the rapid increasing trend of total assets. Increment in interest earning means investment of money in proper opportunity. This is good for financial position of the bank. Furthermore it reflects the good image of bank and good efficiency of managerial and operational level team of the bank

- Total interest paid to total working fund is also in increasing trend except it is slightly decreased in the year 2007/08. It may be because of the rapid increasing trend of total assets also. Increasing of interest paid means increasing deposit and increasing investment. Still profit is continuously increasing. It means the interest paid is making contribution to profit. This is good indicator for financial performance and profit planning of the bank.
- Return on loan and advances are also in increasing trend. This is good indicator for profit planning and control From the figure it is seen that both net profit and loan and advances is increasing during the five years (2005/06-2009/10), where as loan and advances decreased in the year 2009/10. Loan and advances has contributed to total working fund. It means increasing loan and advances is contributing to increasing profit. Further more loan and advance is decreased in2009/10because bank manage the working fund from other source.

Correlation coefficient of financial indicators and ratios

- Operating profit and net profit are perfectly positively correlated from the data of five years of NIC. Operating profit follow the same pattern that of net profit.
- Correlation coefficient of net profit with total assets, loan and advances, deposits and borrowing, shareholder fund, earning per share and dividend pay out ratio shows that the variables has high degree of positive correlation. It means increment of variables also cause nearly equal amount increment of net profit and vice versa. These variables have direct impact upon the profit. This is good indicator and shows the good banking activities during the five years (2005/06-2009/10. During profit planning these variables should be considered. Similarly net profit has negative correlation with non performing assets and price to earning ratio indicating negative impact of the variables upon profit. While planning profit these variables also should be considered.
- Total assets, deposits and borrowings and shareholder fund, these three financial indicators are perfectly positively correlated with each other.

- Non performing assets has high degree of negative correlation with all the indicators and DP/ ratio has moderate degree of positive correlation with all the indicator except inn case of EPS where there is high degree of positive correlation.
- Besides these all the indicators are highly positively correlated.
- Among four liquidity ratios loan and advances to current asset ratio is negatively correlated with other ratios where as other ratios are positively correlated.
- Among four assets management ratios loan and advances to total deposits ratio and loan and advances to total working fund ratio is highly positively correlated and total investment to total deposit and investment on government securities to total working fund ratio is perfectly positively correlated. Other are highly negatively correlated.
- All four profitability ratios are positively correlated with each other.

CHAPTER – V
SUMMARY CONCLUSION & RECOMMENDATIONS

5.1 Introduction
This is the final chapter that involves summary, conclusions and recommendations of the research work. The facts and findings from secondary data analysis are presented in this chapter. Besides summarizing and concluding research work, recommendations are made to concerned persons and organizations.

5.2 Summary
Finance plays a vital role for successful operation of any industry or organization. The capital structure decision is one of the most crucial complex areas of financial decision making. Capital markets provide a channel where the saving of small individual is directed towards productive sector.. Financial market brings borrowers and lenders to the same place, where both parties fulfill their needs. Borrowers receive fund from the lender having excess funds by promising to pay certain return in future. Securities are the major tool of investment for the lender where as it is one of the important sources of collecting funds for institutions. The fund users must use the fund efficiently so that they could earn justifiable return from the investment. The securities issued on exchange of fund are liquid assets, which are traded in the stock market. The price of the liquid assets is determined by performance of the institutions. This research has been focused on these two aspects that are financial performance and rate of return to investors.

The first chapter has focused on the objective of the study defining the problem. Being very specific the study has been initiated to determine the financial performance and profit planning.

Second chapter is the survey on the area of study. It includes conceptual review and review of related studies. Conceptual review based on text book has portrayed the theoretical concept of the related area. It consists of discussion on financial performance and indicators, the concept of return and the techniques of measuring return. Related to these areas, such as investment environment includes a glance on securities, financial markets and investment strategies, which play a vital role determining return. The second section deals with the relevant studies conducted in this area.

Even though there were no more study on this topic has found but there were some studies related to this study. Their finding has been presented in this section if it is applicable. Similarly journal review, independent studies, article studies were also found relevant and extracted on this section.

Research methodology in the third chapter is the main heart of the study. It is designed in that way so that it could give the total method of analysis starting from research design. Population and sample sources of data, limitation of the methodology and the most important data analysis tools are also presented. The analysis methodology ranges from financial analysis, statistical analysis to significance test.

Above mentioned tools of analysis have been implemented in the fourth chapter. The data has covered a five year period starting from 2005/06 to 2009/10. Relation between the pre determined variables, which represent financial performance and return are tried to unfold. First of all financial indictors analysis is done then different ratios have been calculated and analyzed. Then statistical analysis is done using correlation analysis and significance of the analysis is also tested. The second part of the study has outlined the major findings of the study.

5.3 Conclusion

From the analysis of data taken from annual report it is seen that the bank overall performance is satisfactory. From the point of liquidity bank position is not so good however in the Nepalese market it is acceptable. From the point of view of assets management bank position is ok. Bank can further improve the asset management. From the point of view of profit bank is in satisfactory position however with proper management of asset bank can further increase the profit. Detail is described in **ChapterIV "Major findings of the study**". Result of the analysis reflects the success of both managerial level staff and operation level staff.

The bank has been able to achieve excellent performance in the review year2009/10 with net profit of 42% increment. Total assets have been reached to 20309 million. Capital adequacy ratio is at a comfortable 12.92%. Board of director has recommended a dividend of 26.31% to the shareholder in the year 2009/10. Non performing loan are at nominal 0.7%. Similarly net worth of the bank is highly increased. Deposit is also increased but loan is decreased in the year 2009/10. Nic bank is the first and only bank in Nepal to have been awarded the iso 9001:2008 certification for the bank's quality management system on commercial banking activities. Bank is able to grow of 63% in investment in year 2009/10 with significant increase of 390% in government securities. Decreasing rate of non performing assets shows the clear reflection of very sound risk assets portfolio. The bank is exposed to various risk, credit risk, market risk, liquidity risk and operation risk. The bank risk management strategy is based on a clear understanding of various risk, measurement procedure, continuous monitoring and control. The bank follows a self audit system by an independent staff so that error are identified and timely mitigated.

The bank is run by professionals and believes in the highest standard of corporate governance. The bank has continuous been following the practice of enriching and upskiling its human assets so that they deliver value to the business. In line with its mission statement of providing promising growth of opportunities to employees, the prime focus of HRD of NIC has been to develop and implement human resource mangement policies and strategies that enable the bank to attract, recruit, develop, retain and maintain high quality performing and productive workforce.

The banking sector grows with more new players coming into the market during the review period. More than 260 banks and financial institutions with an aggregate asset of more than NRP 700 billions is an important part of Nepalese economy. With increasing competition there is a growing pressure on financial institution to enhance their competitiveness by differentiation in products and services and up gradation and adaptation of international technology along with the challenge to maintain quality assets.

Poor business condition, stringent regulatory norms and above all the challenges of maintaining higher growth in terms of profitability value and satisfying the growing expectation of shareholders and customers has been a challenge and will continue in upcoming year.

5.4 Recommendations

Based on the research work, following recommendations have been to the bank management team.

- Liquidity position of the bank is not satisfactory it is ok. Widely accepted current ratio is 2:1. Bank has recovered only up to 1.2:1. Furthermore loan advances has been decreased by 7% in year 2009/10 and cash reserve ratio is not satisfactory, it is fluctuating. So It is recommended to increase the liquidity position.

- Generally liquid assets don't generate any income and it reduces profitability ratio. But at the same time inadequate liquidity position of the organization tends to lose its power in exchange for deposits. Consequently public reduce transaction with the bank which generates low profit due to low mobilization of the resource. This is the remarkable transaction cycle, which defines the relationship between profitability and liquidity. Management always should try to maintain the adequate profitability and liquidity position analyzing the market.

- From the point of assets management also bank position is. ok it is recommended to maintain the ratio in continuously increasing trend rather than fluctuating trend as far as possible.

- From the point of profit, bank seems to be successful however with proper management of assets bank can further increase the profit.

- Earning per share and dividend pay out ratio shows the return to investor which shows the image of bank in financial market, so it is recommended to maintain a good dividend payout ratio.

- Good management uplifted the performance of company. Shareholders are the owner but neither can take part actively in the management nor can control the management of the company. Management is answerable to shareholder through directors. Hence for the best performance , board should design appropriate policies and monitor the performance of the managers in implementing them.

- Financial factors are not only responsible to increase the financial performance of a bank. Better and qualified human resources, better services, good management all are responsible for the increment of the overall financial performance of a bank.

- A continuous flow of information should be made available to the investors, which will help the investors to accurately value the shares.

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ANNEX I

1. Current Ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Current assets	9611243036	11021266102	14254496887	17562259185	19873104381
Currnt liabilities	8956614929	10186046019	13366953236	16128300726	16599096040
Current Ratio	1.073	1.082	1.066	1.08	1.2

2. Cash and bank balance to total deposit ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Cash and bank balance	749139079	599758632	1192348786	1461150549	2086130109
Total deposit	8765950638	10068230869	13084688672	15579930904	15968917926
Ratio	8.54%	5.95%	9.1%	9.3%	13%

3.Cash and bank balance to current assets ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Cash and bank balan	749139079	599758632	1192348786	1461150549	2086130109

ce					
Current assets	9611243036	11021266102	14254496887	17562259185	19873104381
Ratio	7.79%	5.44%	8.36%	8.32%	10.5%

4. Loan and advances to current assets ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and advances	6636901792	8920537613	11246060421	13653122423	12709036606
Current assets	9611243036	11021266102	14254496887	17562259185	19873104381
Ratio	69.05%	80.93%	78.9%	77.74%	64%

5. Investment on government securities to current assets ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Government securities	1756585150	1104060515	1545375347	2195003685	3978990635
Current assets	9611243036	11021266102	14254496887	17562259185	19873104381
Ratio	18.27%	12.37%	10.8%	12.5%	20%

6. Loan and advances to total deposit ratio

Fiscal	2005/06	2006/07	2007/08	2008/09	2009/10

Year					
Loan and advances	6636901792	8920537613	11246060421	13653122423	12709036606
Total deposit	8765950638	10068230869	13084688672	15579930904	15968917926
Ratio	75.71%	88.60%	85.94%	87%	79%

7. Total investment to total deposit ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total investment	2479912524	1599481050	2311468317	3026022185	4946777670
Total deposit	8765950638	10068230869	13084688672	15579930904	15968917926
Ratio	28.29%	15.88%	17.66%	19.4%	31%

8. Loan and advances to total working fund ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Loan and advances	6636901792	8920537613	11246060421	13653122423	12709036606
Total working fund	10383601708	11678834055	15238736314	18750633197	20309330616
Ratio	63.91%	76.38	73.8%	72.8%	62.5%

9. Investment on government securities to total working fund ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Government securities	1756585150	1104060515	1545375347	2195003685	3978990635
Total working fund	10383601708	11678834055	15238736314	18750633197	20309330616
Ratio	16.91%	9.45%	10.14%	12%	19.6%

10. Investment on share and debenture to total working fund ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Investment on share and debenture	1839000	16594000	26466500	26591500	27791500
Total working fund	10383601708	11678834055	15238736314	18750633197	20309330616
Ratio	0.018%	0.14%	0.17%	0.14%	0.137%

11. Return on total working fund ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit	97000000	159000000	243000000	317000000	450000000

Total working fund	10383601708	11678834055	15238736314	18750633197	20309330616
Ratio	0.94%	1.36%	1.59%	1.7%	2.2%

12. Return on loan and advances ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Net profit	97000000	159000000	243000000	317000000	450000000
Loan and advances	6636901792	8920537613	11246060421	13653122423	12709036606
Ratio	1.46%	1.78%	2.16%	2.3%	3.5

13. Total interest earned to total working fund ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total interest earned	579979428	725819040	931400562	1283520711	1777165668
Total working fund	10383601708	11678834055	15238736314	18750633197	20309330616
Ratio	5.58%	6.21%	6.11%	6.84%	8.75%

14. Total interest paid to total working fund ratio

Fiscal Year	2005/06	2006/07	2007/08	2008/09	2009/10
Total interest earned	1031474076	767196816	421374951	505995879	340221921
Total working fund	10383601708	11678834055	15238736314	18750633197	20309330616
Ratio	3.27%	4.33%	2.76%	4.09%	5.07%