CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Financial infrastructure of the country is the key factors for the economic development of the country, and economic development is the major component of the overall development of any country. So, the major goal of the country like Nepal is the rapid growth and development of economic condition which can be achieve through rapid development in financial infrastructure. Development in financial infrastructure directly or indirectly affects the welfare of the general citizen. Nepal, being a one of the least developed country is trying to achieve the goal of overall development through the improvement in financial infrastructure and system.

Country like Nepal are unable to utilize their natural as well as other resources available within a country or they are being underutilized. Optimum utilization of all kind of resources can be possible only through the establishment and systematic operation of financial institutions like bank, insurance, cooperatives etc. facility of the financial institutions should be provided to all the citizen of different group who are residing in the any corner of the country which can help to collect the scatter financial sources and invest in productive sector such as hydropower, road expansion and many more. Financial institutions have catalytic role in the process of economic development. The investment policy of financial institutions, especially banks has long term impact not only on their growth and sustainability but also on the economic development of the country. Successful formulation and effective implementation of investment policy is the prime requisite for the successful performance of banks and other financial institutions. Success of the bank is largely depends upon the volume of revenue (deposit) collection and effective utilization of collected revenue. The bank which can collect large amount of deposit from the client and can utilize it effectively can achieve tremendous success in banking sector. So the study of deposit collection and the utilization has become the crucial for the commercial bank which can determine the success or failure of the bank.

Sir John Pagette defines Bank as " Bank is such a financial institution which collects money in current, savings or fixed deposit account; collects cheques as deposits and pays money from the depositors account through cheques."

Introduction of Commercial Bank

The history of banking in Nepal dates back to the year 1937 AD with the establishment of Nepal Bank Limited as the first commercial bank in Nepal. It was established as a semi-government bank with METALLIC COINS worth NRs 10 million as the authorized capital. Banknotes in Nepal weren't introduced up until the mid-1940s. It was in the year 1945 that the earliest banknotes were issued by the treasury *"Sadar Muluki Khana"*. These notes were signed by a *"Khajanchi"*, the head of the treasury who also was a high Hindu Priest.

Later in the year 1955, the Nepal Rastra Bank Act was formulated for a better banking system and Nepal Rastra Bank was established in 1956 as the Central Bank of Nepal accordingly. After this date, the banknotes were issued by the Central Bank with the signatures of the governors of the institution. Till the 1980s, the banking sector was wholly owned by the government, with Agriculture Development Bank, Rastriya Banijya Bank, NB**L,** and NRB being the pillars of a financial institution in Nepal.

1984 saw the start of the private banking industry with the establishment of Nabil Bank and the introduction of foreign banks such as the Nepal Arab Bank, Nepal Indosuez Bank**,** and Nepal Grindlays. The banking sector in Nepal has faced many hurdles and hindrances. It has undergone various political conflicts and instability. But today, it stands more liberalized and modernized. There are various types of banks working in the modern banking system in Nepal. As per the list issued by NRB as of Mid-January 2022, the modern banking sector includes 27 Commercial Banks, 17 Development Banks, 17 Finance Companies, and 67 Micro Credit Development Banks. (*www.investopaper.com*)

Commercial Banks are financial institutions that provide services like accepting deposit from the general public, making business loans, and offering basic investment products. Commercial Banks acts as a bridge between those who have surplus money and those who need it. Receiving deposits and advancing loans are the main functions of commercial banks. Commercial banks are established with the sole purpose of making a profit.

According to Commercial Bank Act 2031, "Commercial banks are those banks which are established under this act to perform commercial function." The commercial banks pool together the savings of the community and arrange for their productive uses. They supply financial needs of modern business.

The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development; it maintains economic confidence of various segments and extends credit to people. Commercial bank is a corporation which accepts demand deposits subject to check and makes short-term loans to business enterprises, regardless of the scope of its other services.

The main purpose of commercial banks should be to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

Functions, Duties, and Rights of the Commercial Banks according to BAFIA

- Accepting deposit with or without interest and repaying the deposit through various financial instruments.
- Provide intermediary services and transfer funds through the various electronic medium.
- Disbursement of credit (hire-purchasing, leasing, overdraft, and housing).
- Disbursement of credit on a guarantee of foreign B&FIs.
- Disbursement loans from the amount received from the Government of Nepal or other native or foreign agency for project promotion.
- Issuing shares, debenture, bond and so on to meet the capital fund subject to the limitations, conditions or directives issued by the Nepa Rastra Bank.
- Foreign currency transactions subject to the prevailing laws.
- Carrying out the government transactions subject to the limits, terms and conditions or directives or NRB.
- Purchasing, selling or accepting bonds issued by NRB and Government of Nepal.
- Remitting or transmitting funds to different places within or outside Nepal and receive remittance from abroad to make payment thereof.
- Buying and selling of gold and silver bullions.
- Prudently managing of selling its own assets of all type to come under its ownership according to this and prevailing laws.
- Carry out the other functions as prescribed by Nepal Rastra Bank.

1.1.1 Profile of the Study

Century Commercial Bank Limited (CCBL) is a National Level Commercial bank established on January 23, 2011 with the objective of providing simplified banking services by taking advantage of innovations in information and communication

technology. CCBL aims to extend its reach to the unbanked population of the country and is driven by the mission of ***"saral banking sabaiko lagi" (simplified banking for all).***

The Bank has a network of 126 branches, 10 extension counter, 25 branchless banking and 108 ATMs across the country and offers a wide range of banking products in deposits, lending and other value-added services such as internet/ mobile banking, remittance and branchless banking etc. The Bank's team comprises of more than 1100 staff and caters to more than 700,000 customers.

In line with the progressive strategy, the Bank is focused on implementing sustainable business practices and deliver consistent growth that is sustainable and profitable to all its stakeholders. (*centurybank.com.np*)

1.2 Statement of the Problem

Profit is the life blood of the any business organization. It is necessary for existence of business organization. Success is not a matter of chance. Profit does not just happen, it has to be plan and manage properly. Profit is the most for a bank to survive in the competitive market. Banks have been globalizing with their service and the technology has knocked to the worldwide net working of the banking. Banks can generate revenue by rendering banking and non-banking service. Today banks have emerged many trustee and agency roles, off balance sheet transaction and other near bank service by which banks compromise a major source of profit.

Since, the study is focused in revenue management and its impact on profitability. The study is deals with following issues;

- Does Century Commercial Bank Limited have appropriate profit planning system?
- Does the bank mobilize the deposit or other resource at optimum cost?
- Does the bank gives proper attention to non-funded business activities thereby generating satisfactory amount of other income?
- Does the bank use aggressive strategy for the maximization of service by stimulating the expansion of branch network in order to increase profit entity.

1.3 Objectives of the Study

The major objective of the study is to analyze the effectiveness of revenue and profitability management and its impact on profitability of the bank. To achieve this objective, have to be set such as;

- To analyze the appropriate profit planning system of Century Commercial Bank Ltd.
- To analyze the impact of revenue management on profitability mobilization of Century Commercial Bank Limited.
- To study and analyze revenue fund-based income and fee-based income by proper utilization of resources.

1.4 Significance of the Study

The research study is concerned with the revenue management and its impact on profitability of bank with the major objective of examining the proper applicability of profit planning system of the bank. So certainly, the reference bank will be benefited from this study; as well as other bank and financial institution also can take advantage from this study. This study aims to find out the current situation and tendency of profitability through revenue management, so there may be various parties, from stockholders to stakeholders, general public to government bodies, employee of the bank to research student an foremost the esteemed customers who may be seeking financial information for the interpretation of their own. All management of the bank will be provided information from this study to take corrective action, the shareholders can take right decision to make investment and employee of the bank will be familiar with the profitability position of the bank, importance to government bodies of policy makers such as the central bank. And the research student can take this study as a reference for their study.

- This study will be useful for potential managers, accountant, policy maker and planners.
- It examines the application of revenue in the company.
- It will also provide the literature to the researcher students, who want to carry on further research in this field.

- The study helps to know how well the bank.
- This study provides necessary recommendation to the related department of the company.

1.5 Limitations of the Study

Although the research has tried utmost care to cover most of the important sector, the study is still subject to following limitations;

- The study is basically based in secondary data.
- The study is based mostly Century Commercial Bank Limited, so this study may not be fully applicable to all banks.
- The study is based in 5 years data from 2073/74 to 2077/78 and conclusion drawn confines only to the above period.
- The study is analyzed only with the help of financial tools and very few statistical tools.
- The study is focused on revenue management and it impacts on profitability of the bank leaving other areas uncovered.

1.6 Organization of the Study

The whole study is divided into five different chapters.

Chapter-I: Introduction

This chapter describes the background of the study. It has served Orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study, significance of the study, and limitations of the study and chapter plan of the study.

Chapter-II: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas. It contains conceptual framework of the credit, review of articles and past related thesis.

Chapter-III: Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. This chapter includes research design, data collection, and data analysis technique and research variables.

Chapter- IV: Data Presentation and Analysis

This chapter analyzes the data related with study and presents the findings of the study and also commend briefly on them. Data processing, data analysis and interpretation are given in this chapter and there is use of techniques relating to analysis such as ratio, descriptive expression, diagrams and so forth.

Chapter-V: Summary, Conclusion and Recommendations

On the basis of the result from data analysis, the researcher concludes about the performance of the concerned organization in terms of credit management. This chapter is devoted to the summary of the research, conclusion derived on the basis of data analyzed and the recommendations for improvement to the concerned organization.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

The chapter is basically concerned with the conceptual framework with relevant terminologies and review of literature. The chapter is divided into two parts; one is conceptual framework and the other is review of literature. In review of literature, the past researches and studies are reviewed in order to set the foundation of the study. Because every study is very much based on past knowledge, study and experience. The past knowledge or the previous studies should not be ignored as it provides the basis for the present study. Review of literature is a way to discover what other researches in the area of stated problem has uncovered. It helps to minimize the costly effort and reveals areas of needed research. It enables the researcher to know about what research has been done in the subject, what techniques and tools have been advanced by the former researcher and so on.

2.1 Conceptual Framework with Relevant Terminologies

In conceptual framework, the relevant terminologies regarding profit and profitability, profit planning and control process, budgeting and other financial terms of commercial financial institutions are studied. However, there are some core concepts and specific terminologies used in the financials of commercial banks that may be used in the specific sense and practice in the banking sector. Thus, this chapter helps as adequate feedback to broaden the information and to support the inputs of the study. Therefore, the review of literature has its own importance.

2.1.1 Revenue Management

Revenue management is the application of disciplined analytics that predict consumer behavior at the micro-market level and optimize product availability and price to maximize revenue growth. The primary aim of Revenue Management is selling the right product to the right customer at the right time for the right price. The essence of this discipline is in understanding customers' perception of product value and accurately aligning product prices, placement and availability with each customer segment. Businesses face important decisions regarding what to sell, when to sell, to whom to sell,

and for how much. Revenue Management uses data-driven tactics and strategy to answer these questions in order to increase revenue. The discipline of revenue management combines data mining and operations research with strategy, understanding of customer behavior, and partnering with the sales force. Today, the revenue management practitioner must be analytical and detail oriented, yet capable of thinking strategically and managing the relationship with sales.

2.1.2 History of Revenue Management

Before the emergence of Revenue Management, BOAC (now British Airways) experimented with differentiated fare products by offering capacity controlled "Earlybird" discounts to stimulate demand for seats that would otherwise fly empty. Taking it a step further, Robert Crandall, former Chairman and CEO of American Airlines, pioneered a practice he called Yield Management, which focused primarily maximizing revenue through analytics-based inventory control. Under Crandall's leadership, American continued to invest in Yield Management's forecasting, inventory control and overbooking capabilities. By the early 1980s, the combination of a mild recession and new competition spawned by airline deregulation posed an additional threat. Low-cost, low-fare airlines like People Express were growing rapidly because of their ability to charge even less than American's Super Saver fares. After investing millions in the next generation capability which they would call DINAMO (Dynamic Inventory Optimization and Maintenance Optimizer), American announced Ultimate Super Saver Fares in 1985 that were priced lower than the People Express. These fares were non-refundable in addition to being advance-purchase restricted and capacity controlled. This Yield Management system targeted those discounts to only those situations where they had a surplus of empty seats. The system and analysts engaged in continual re-evaluation of the placement of the discounts to maximize their use. Over the next year, American's revenue increased 14.5% and its profits were up 47.8%. (Cross, 1997)

Other industries took note of American's success and implemented similar systems. Robert Crandall discussed his success with Yield Management with Bill Marriott, CEO of Marriott International. Marriott International had many of the same issues that airlines did: perishable inventory, customers booking in advance, lower cost competition and wide swings with regard to balancing supply and demand. Since "yield" was an airline

term and did not necessarily pertain to hotels, Marriott International and others began calling the practice Revenue Management. The company created a Revenue Management organization and invested in automated Revenue Management systems that would provide daily forecasts of demand and make inventory recommendations for each of its 160,000 rooms at its Marriott, Courtyard Marriott and Residence Inn brands. They also created "fenced rate" logic similar to airlines, which would allow them to offer targeted discounts to price sensitive market segments based on demand. To address the additional complexity created by variable lengths-of-stay, Marriott's Demand Forecast System (DFS) was built to forecast guest booking patterns and optimize room availability by price and length of stay. By the mid-1990s, Marriott's successful execution of Revenue Management was adding between $150 million and $200 million in annual revenue. (Marriott & Cross, 2000:199)

A natural extension of hotel Revenue Management was to rental car firms, which experienced similar issues of discount availability and duration control. In 1994, Revenue Management saved National Car Rental from bankruptcy. Their revival from near collapse to making profits served as an indicator of Revenue Management's potential. (Geraghty & Johnson, 1997:107)

Up to this point, Revenue Management had focused on driving revenue from Business to Consumer (B2C) relationships. In the early 1990s UPS developed Revenue Management further by revitalizing their Business to Business (B2B) pricing strategy. Faced with the need for volume growth in a competitive market, UPS began building a pricing organization that focused on discounting. Prices began to erode rapidly, however, as they began offering greater discounts to win business. The executive team at UPS prioritized specific targeting of their discounts but could not strictly follow the example set by airlines and hotels. Rather than optimizing the revenue for a discrete event such as the purchase of an airline seat or a hotel room, UPS was negotiating annual rates for large-volume customers using a multitude of services over the course of a year. To alleviate the discounting issue, they formulated the problem as a customized bid-response model, which used historical data to predict the probability of winning at different price points. They called the system Target Pricing. With this system, they were able to forecast the outcomes of any contractual bid at various net prices and identify where they could

command a price premium over competitors and where deeper discounts were required to land deals. In the first year of this Revenue Management system, UPS reported increased profits of over $100 million. (Agrawal & Ferguson, 2007:212)

The concept of maximizing revenue on negotiated deals found its way back to the hospitality industry. Marriott's original application of Revenue Management was limited to individual bookings, not groups or other negotiated deals. In 2007, Marriott introduced a "Group Price Optimizer" that used a competitive bid-response model to predict the probability of winning at any price point, thus providing accurate price guidance to the sales force. The initial system generated an incremental $46 million in profit. This led to an Honorable Mention for the Franz Edelman Award for Achievement in Operations Research and the Management Sciences in 2009. (Hormby & Morrison, 2010:47)

By the early 1990s Revenue Management also began to influence television ad sales. Companies like Canadian Broadcast Corporation, ABC, and NBC developed systems that automated the placement of ads in proposals based on total forecasted demand and forecasted ratings by program. Today, many television networks around the globe have Revenue Management Systems. (Bell, 2005)

Revenue Management to this point had been utilized in the pricing of perishable products. In the 1990s, however, the Ford Motor Company began adopting Revenue Management to maximize profitability of its vehicles by segmenting customers into micro-markets and creating a differentiated and targeted price structure. Pricing for vehicles and options packages had been set based upon annual volume estimates and profitability projections. The company found that certain products were overpriced and some were underpriced. Understanding the range of customer preferences across a product line and geographical market, Ford leadership created a Revenue Management organization to measure the price-responsiveness of different customer segments for each incentive type and to develop an approach that would target the optimal incentive by product and region. By the end of the decade, Ford estimated that roughly $3 billion in additional profits came from Revenue Management initiatives. (Leibs, 2002)

The public success of Pricing and Revenue Management at Ford solidified the ability of the discipline to address the revenue generation issues of virtually any company. Many auto manufacturers have adopted the practice for both vehicle sales and the sale of parts. Retailers have leveraged the concepts pioneered at Ford to create more dynamic, targeted pricing in the form of discounts and promotions to more accurately match supply with demand. Promotions planning and optimization assisted retailers with the timing and prediction of the incremental lift of a promotion for targeted products and customer sets. Companies have rapidly adopted markdown optimization to maximize revenue from end-of-season or end-of-life items. Furthermore, strategies driving promotion roll-offs and discount expirations have allowed companies to increase revenue from newly acquired customers. (Phillips, 2005)

By 2000, virtually all major airlines, hotel firms, cruise lines and rental car firms had implemented Revenue Management Systems to predict customer demand and optimize available price. These Revenue Management Systems had limited "optimize" to imply managing the availability of pre-defined prices in pre-established price categories. The objective function was to select the best blends of predicted demand given existing prices. The sophisticated technology and optimization algorithms had been focused on selling the right amount of inventory at a given price, not on the price itself. Realizing that controlling inventory was no longer sufficient, InterContinental Hotels Group (IHG) launched an initiative to better understand the price sensitivity of customer demand. IHG determined that calculating price elasticity at very granular levels to a high degree of accuracy still was not enough. Rate transparency had elevated the importance of incorporating market positioning against substitutable alternatives. IHG recognized that when a competitor changes its rate, the consumer's perception of IHG's rate also changes. Working with third party competitive data, the IHG team was able to analyze historical price, volume and share data to accurately measure price elasticity in every local market for multiple lengths of stay. These elements were incorporated into a system that also measured differences in customer elasticity based upon how far in advance the booking is being made relative to the arrival date. The incremental revenue from the system was significant as this new Price Optimization capability increased Revenue per Available Room (Rev Par) by 2.7%. (Eister & Higbie, 2012:45)

2.1.3 The Revenue Management Levers

Whereas yield management involves specific actions to generate yield through perishable inventory management, Revenue Management encompasses a wide range of opportunities to increase revenue. A company can utilize these different categories like a series of levers in the sense that all are usually available, but only one or two may drive revenue in a given situation. The primary levers are:

Pricing

This category of Revenue Management involves redefining pricing strategy and developing disciplined pricing tactics. The key objective of a pricing strategy is anticipating the value created for customers and then setting specific prices to capture that value. A company may decide to price against their competitors or even their own products, but the most value comes from pricing strategies that closely follow market conditions and demand, especially at a segment level. Once a pricing strategy dictates what a company wants to do, pricing tactics determine how a company actually captures the value. Tactics involve creating pricing tools that change dynamically, in order to react to changes and continually capture value and gain revenue. Price Optimization, for example, involves constantly optimizing multiple variables such as price sensitivity, price ratios, and inventory to maximize revenues. A successful pricing strategy, supported by analytically-based pricing tactics, can drastically improve a firm's profitability.

Inventory

When focused on controlling inventory, Revenue Management is mainly concerned with how best to price or allocate capacity. First, a company can discount products in order to increase volume. By lowering prices on products, a company can overcome weak demand and gain market share, which ultimately increases revenue so long as each product sells for more than its marginal cost. On the other hand, in situations where demand is strong for a product but the threat of cancellations looms (e.g. hotel rooms or airline seats), firms often overbook in order to maximize revenue from full capacity. Overbooking's focus is increasing the total volume of sales in the presence of cancellations rather than optimizing customer mix.

Marketing

Price promotion allows companies to sell higher volumes by temporarily decreasing the price of their products. Revenue Management techniques measure customer responsiveness to promotions in order to strike a balance between volume growth and profitability. An effective promotion helps maximize revenue when there is uncertainty about the distribution of customer willingness to pay. When a company's products are sold in the form of long-term commitments, such as internet or telephone service, promotions help attract customers who will then commit to contracts and produce revenue over a long time horizon. When this occurs, companies must also strategize their promotion roll-off policies; they must decide when to begin increasing the contract fees and by what magnitude to raise the fees in order to avoid losing customers. Revenue Management optimization proves useful in balancing promotion roll-off variables in order to maximize revenue while minimizing churn.

Channels

Revenue Management through channels involves strategically driving revenue through different distribution channels. Different channels may represent customers with different price sensitivities. For example, customers who shop online are usually more price sensitive than customers who shop in a physical store. Different channels often have different costs and margins associated with those channels. When faced with multiple channels to retailers and distributors, Revenue Management techniques can calculate appropriate levels of discounts for companies to offer distributors through opaque channels to push more products without losing integrity with respect to public perception of quality.

2.1.4 The Revenue Management Process

The revenue management process consist the following steps.

Data Collection

The Revenue Management process begins with data collection. Relevant data are paramount to a Revenue Management System's capability to provide accurate, actionable information. A system must collect and store historical data for inventory, prices, demand, and other causal factors. Any data that reflects the details of products offered,

their prices, competition, and customer behavior must be collected, stored, and analyzed. Information about customer behavior is a valuable asset that can reveal consumer behavioral patterns, the impact of competitors' actions, and other important market information. This information is crucial to starting the Revenue Management process.

Segmentation

After collecting the relevant data, market segmentation is the key to market-based pricing and revenue maximization. Success hinges on the ability to segment customers into similar groups based on a calculation of price responsiveness of customers to certain products based upon the circumstances of time and place. Revenue Management strives to determine the value of a product to a very narrow micro-market at a specific moment in time and then chart customer behavior at the margin to determine the maximum obtainable revenue from those micro-markets. Useful tools such as Cluster Analysis allow Revenue Managers to create a set of data-driven partitioning techniques that gather interpretable groups of objects together for consideration. Market segmentation based upon customer behavior is essential to the next step, which is forecasting demand associated with the clustered segments.

Forecasting

Revenue Management requires forecasting various elements such as demand, inventory availability, market share, and total market. Its performance depends critically on the quality of these forecasts. Forecasting is a critical task of Revenue Management and takes much time to develop, maintain, and implement. Quantity-based forecasts, which use time-series models, booking curves, cancellation curves, etc., project future quantities of demand, such as reservations or products bought. Price-based forecasts seek to forecast demand as a function of marketing variables, such as price or promotion. These involve building specialized forecasts such as market response models or cross-price elasticity estimates to predict customer behavior at certain price points. By combining these forecasts with calculated price sensitivities and price ratios, a Revenue Management System can then quantify these benefits and develop price optimization strategies to maximize revenue.

Optimization

While forecasting suggests what customers are likely to do, optimization suggests how a firm should respond. Often considered the pinnacle of the Revenue Management process, optimization is about evaluating multiple options on how to sell your product and to whom to sell your product. Optimization involves solving two important problems in order to achieve the highest possible revenue. The first is determining which objective function to optimize. A business must decide between optimizing prices, total sales, contribution margins, or even customer lifetime values. Secondly, the business must decide which optimization technique to utilize. For example, many firms utilize linear programming, a complex technique for determining the best outcome from a set of linear relationships, to set prices in order to maximize revenue. Regression analysis, another statistical tool, involves finding the ideal relationship between several variables through complex models and analysis. Discrete choice models can serve to predict customer behavior in order to target them with the right products for the right price. Tools such as these allow a firm to optimize its product offerings, inventory levels, and pricing points in order to achieve the highest revenue possible.

Dynamic Re-evaluation

Revenue Management requires that a firm must continually re-evaluate their prices, products, and processes in order to maximize revenue. In a dynamic market, an effective Revenue Management System constantly re-evaluates the variables involved in order to move dynamically with the market. As micro-markets evolve, so must the strategy and tactics of Revenue Management adjust.

2.1.5 Revenue Management in an Organization

Revenue Management’s fit within the organizational structure depends on the type of industry and the company itself. Some companies place Revenue Management teams within Marketing because marketing initiatives typically focus on attracting and selling to customers. Other firms dedicate a section of Finance to handle Revenue Management responsibilities because of the tremendous bottom line implications. Some companies have elevated the position of Chief Revenue Officer, or CRO, to the senior management level. This position typically oversees functions like sales, pricing, new product development, and advertising and promotions. A CRO in this sense would be responsible

for all activities that generate revenue and directing the company to become more "revenue-focused."

Supply Chain Management and Revenue Management have many natural synergies. Supply chain management (SCM) is a vital process in many companies today and several are integrating this process with a Revenue Management System. On one hand, supply chain management often focuses on filling current and anticipated orders at the lowest cost, while assuming that demand is primarily exogenous. Conversely, Revenue Management generally assumes costs and sometimes capacity are fixed and instead looks to set prices and customer allocations that maximize revenue given these constraints. A company that has achieved excellence in Supply Chain Management and Revenue Management individually may have many opportunities to increase profitability by linking their respective operational focus and customer-facing focus together.

Business Intelligence platforms have also become increasingly integrated with the Revenue Management process. These platforms, driven by data mining processes, offer a centralized data and technology environment that delivers business intelligence by combining historical reporting and advanced analytics to explain and evaluate past events, deliver recommended actions and eventually optimize decision-making. Not synonymous with Customer Relationship Management (CRM), Business intelligence generates proactive forecasts, whereas CRM strategies track and document a company's current and past interactions with customers. Data mining this CRM information, however, can help drive a business intelligence platform and provide actionable information to aid decision-making.

2.1.6 Profit Planning and Control (PPC)

Profit planning and control is an important approach, mainly in profit oriented enterprises. Profit planning is merely a tool of management. It is not an end of management or substitute of management. It facilitates the managers to accomplish managerial goals in a systematic way. Profit planning and control is composed of profit, planning and control. To get the meaning of PPC as a whole, we go through them individually.

Profit

Profit is the ultimate goal of every business entities. They involve in business for making profit. Profit cannot be achieved easily. It should be managed well with better management. Continuity in proper managerial manipulation of outflows and inflows can secure the generation of profit. By element, profit is the difference of revenue and cost. Profit plan, thus, refers to the planning of revenue (i.e. increase the revenue) and planning of cost (i.e. increase the efficiency of cost).

There are different views regarding the definition of profit. In accounting context, profit denotes the excess of out flow (revenue factors) over the inflows (cash factor). The essential inflows are people, capital and material, methods and they are generally cost incurring factors. On the other hand, the planned outflows are products, services and social contribution that the enterprises generate. The planned outflows, products & services, are generally revenue generating factors. The excess of enterprises revenue earned over its cost spend for producing revenue within a define accounting period is called profit. In other sense, return on investment is profit. In economic context, economists have propounded several theories to explain it.

Theory of Risk and Uncertainty Bearing

"The profit of an undertaking is not the reward of management or co-ordination but of the risk and responsibilities." (Hawley, 1980: 351)

"The profit is a reward for bearing non-insurable risks and uncertainties" (Knight, 1921:26)

Dynamic Theory of Profit

This theory was propounded by J. B. Clark. According to this theory, "Dynamic changes in the economy are the basic cause of emergence of profits. There is no profit in a static economy as any changes in population, capital, methods of production and industrial set up" (Clark, 1926:18).

Need of Profit

Profit is a most for the following reasons:

Measurement of Performance

Profit is only one factor to measure the management efficiency, productivity and performance. Profit is the most widely used yardstick to see what really is to be achieved and where the firm is to go in the future.

Premium to Cover Costs of Staying in Business

Business environment is full of risks and uncertainties. To gasp the globally changing technologies, to stay in the market uncertainties, to replace and acquire assets and enhancing business scope etc. require a profit margin.

Ensuring Supply of Future Capital

Profit is necessary to plough back in the investments like innovations, business expansion and self-financing. It o attracts investors for further investment.

Profit and Profitability of Banks

Profit is an essential fuel to drive business ahead and survive business effectively, efficiently and economically. No business enterprises can self survive in the absence of profit for long time. That's why; profit is the prime goal of every type of business enterprises. Unlike any other business organizations development banks also have to survive with the help of profit. Banks incur large administrative expenses in the course of maintaining service efficiency and attractive premises. The daily expenses, the operational expenses, staff expenses, returns to the stakeholders, all are ensured by profit alone. Profit is earned by the banks largely through financing activities, in the form of loans and advances to the customers, placement in other banks, investment in government securities, non-fund activities like issuing L/C, guarantee etc. Revenue is earned through non-exposure functions by the way of commission and fees. But its contribution in the overall profit remains in the lower side. Hence banks earns major portion of their income through lending money, which it acquires through various means such as collecting deposits in various accounts, by issuing shares. Debentures etc without profit, bank would not be in a position to meet all the expenses as mentioned above. Hence, profit is the main factor for the existence of a bank.

The majority of the needs of the stakeholders are related with the profitability of banks. For example, in case the banks earn profits, the investors get dividends. Employees get

bonus, government gets benefits in the forms of taxes etc. Thus, the foremost objective of the banks is the maximization. The major source of funds of the bank is the public deposit. The bank in most of the cases has to pay certain rate of interest to the public if their deposit. Thus, the banks have to mobilize these funds in the profitable sectors which derive the maximum return on the assets. The investment of granting of loan and advances by them are highly influenced by profit margin. The profit of the bank is dependent on the interest rate, volume of loan and time period of loan. However, the bank at the same time has to ensure that their investment is safe from default.

Although the banks have to invest in order to earn profits. But, at the same time have to set aside some of its fund in order to maintain their liquidity. As we all know the major source or bank's fund is public deposits, the bank has to be able to allow the depositors to withdraw their deposit in terms of need. Thus, the bank cannot invest all its funds in the profitable sectors. Thus, a successful bank is one who invests most of its funds in different earning assets standing safely from the problem of liquidity i.e. keeping cash reserves to meet the daily requirement of the depositors. Lower the liquidity, higher the profitability and higher the liquidity, lower the profitability. So, profitability and liquidity maintain a highly negative co-relation. Since both are equally important, banks cannot afford to ignore any of them. So, the management has to make a crucial decision regarding a mixture of liquidity and profitability.

Profitability and Liquidity of Banks

Profitability and liquidity both are equally important to the bank. Liquidity means the capability of the bank to meet the demand on the customer's deposits. Liquidity is the status and part of the assets which can be used to meet the obligation. The degree of liquidity depends upon the relationship between cash assets plus those assets which can be quickly turned into cash and the liability awaiting payment. Banks maintain liquidity in various forms like ready cash at its disposal. Certain percentage at Central Bank (NRB) as a statutory requirement makes placements in other banks and some percentage is utilized in investment on government securities.

Banks pay the depositors their money when demanded, and if this is not met, it damages the banks image. The confidence of the public will be lost and this leads the banks

towards its downfall. So, banks should not invest all the money it has on exposure based assets only, as it will not be repaid when required. Therefore, banks keep a certain percentage O their fund on such assets that can be utilized as need arises, which is known as liquid assets.

Banks have to maintain liquidity to meet the depositors claim. For this, they have to maintain sufficient fund in liquid assets. Funds invested only in government securities and other liquid assets do not earn sufficient income to meet all its expenditure. Banks have to pay a large amount as interest to its depositors and have to spend a lot of amount in its daily operational activities. To meet such expenses banks have to invest in assets that generate maximum revenue. However, banks cannot lend all the money in possession with it, on assets like loans and advances, which generate optimum revenue.

Hence, a balance of assets must be stroked to ensure both profitability and liquidity. These paradoxical principles of liquidity and profitability are reconciled to the maximum benefits of the bank. In order to avoid difficulty in meeting the various commitments, (depositor's claim, payment of redeemable preference shares and debentures, regular interest payment etc) bankers strike a balance by arranging their assets in different proportions of liquidity and profitability (Shrestha & Sundar, 2007:205).

Planning

Planning is the first essence of management and all other function are performed within the framework of planning. Planning is the cornerstone of effective management. Planning stars with forecasting and predetermination of further events. Planning consists in setting goals for the firm both immediate and long range, considering the various means by which such goals may be achieved, and deciding which of any available alternative, means would be best suited to the attainment of the goals sought under the conditions expected to prevail. Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It provides the ends to be achieved.

Planning is the process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes;

- Establishing enterprise objective and goals,
- Developing premises about the environment in which they are to be accomplished,
- Selecting a course of action for accomplishing the objectives,
- Initiating activities necessary to translate plans into an action and
- Current re-planning to correct current deficiencies.

Management planning involves uncertainty and reliable forecast can help reduce the uncertainty in planning. Planning is the first function of management and is performed continuously because the passage of time demands both re-planning and making new plans. Management planning provides the basis for performing the four other functions.

Strategic and functional, short range and long range formal and informal, adhoc and standing planning, administrative and operational planning are the various types of managerial planning. Mainly two type of planning i.e. strategic and tactical is the prime aspects in planning of profit planning and control.

Control

Control is a function in the management process and one of the prime parts of profit planning and control. As with planning, controlling is performed continuously. Therefore, there is a control process that should be always operating in an enterprise. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise initiating corrective action when necessary to ensure efficient accomplishment of enterprise objective, goals, policies, and standards. Planning establishes the objective, goals, policies and standards of an enterprise. Control is excused by using personal evaluation, periodic performance reports and special reports. Another view identifies the types of control as follows:

- Preliminary Control (Feed Forward).
- Used prior to action to ensure that resources and personnel are prepared and to start activities.
- Concurrent control (Usually Periodic Performance Reports).

- Monitoring (By using personal observation and reports) of current activities to ensure that are being met and policies and procedures are being followed during action.
- Feedback Control.
- Ex post - action (pre planning) focusing on past result to control future activities. Beside these controls, other types of control are internal and external control, formal and informal, systematic and adhoc control, activities control, physical and financial control etc.

Planning and control is the base-camp of profit planning and control system. After defining about profit, planning and control individually, now, it is going to present holistic theoretical concept of profit planning and control.

2.1.7 Meaning of Profit, Planning and Control

Profit planning and control is a new term in the literature of business, not an end and substitute of management. Through it is a new term; it is not a new concept in management. The other terms this can be used in same context are comprehensive budgeting, managerial budgeting or simply budgeting. The PPC con is defined as process or technique of management that enhances the efficiency of management.

Every enterprise is established with its definite objectives to be achieved. An enterprise is a successful enterprise if its management is efficient to accomplish the objective of the enterprise. The management is effective, when it accomplishes the objective with minimum effort and cost. In order to attain long-range efficiency and effectiveness, management must chart out its course action in advance. A systematic approach that facilitates effective management performance is profit planning and control, or budgeting. Budgeting is therefore an integral part of management. In a way, budgetary control system has been described as a historical combination of a goal-setting machine for increasing an enterprises profit, and “goal-achieving the budgeted targets.”

Some definitions gives by various scholars are as follows:

Welsch, et al. (2005), "Comprehensive profit planning and control is a systematic and formalized approach for accomplishing the planning, co-ordination and control responsibilities of management".

Lynch & Williamson, (2004), "The concept of a comprehensive budget covers its use in planning, organizing and controlling all the financial and operating activities of the firm in the forth coming period"

Profit planning and control involves development and application of:

- Broad and long range objectives for the enterprise,
- Specification of goals,
- Long range profit plan in broad terms,
- Tactical short range profit plan detailed by assigned responsibilities (division, department, project),
- A system of periodic performance reports detailed by assigned responsibilities,
- Control system,
- Follow up procedure.

Goet, et al. (2006). Hence, profit planning and control represents an overall plan of operations, providing guidelines to management and acting as single light for the management. It enables the management to correct its policy. Profit planning and control covers a definite period of time and formulates the planning decision of management.

2.1.8 Role of Profit, Planning and Control

The role of PPC or budgeting is vital to the success and survival of a business firm. Without a fully coordinated budgeting system, management cannot know the direction the business is taking out. Organizations that do not plan are likely to wonder aimlessly and ultimately succumb to the swirl of current events. The roles of PPC or budgeting are pointed as follows;

- It helps to set definite goals and objectives that serve as benchmarks for evaluating subsequent performance and to show the direction of business.
- It uncovers subsequent bottlenecks before they occur and compels management to plan for the most economical use of labor, material, and capital.
- It compels and motivates management to make an early and timely study of its problems. It generates a sense of caution and case, and adequate study among managers before they makes decisions.
- Profit planning and control co-ordinates the activities of the entire organization by integrating the plans and objectives of the various parts. By doing so, it ensure that the plans and objectives of those parts are consistent with the broad goals of the entire organization.
- It rewards high performance and seeks to correct unfavorable performance.
- It provides a valuable means of controlling income and expenditure of a business, as it is a plan for spending.
- It provides a tool through which managerial policies and goals are periodically evaluated, tested and established as guidelines for the entire organization.
- It develops an attitude of cost consciousness, stimulates the effective use of resources, and creates an environment of profit conscious through out the organization. It emphasizes how much should be spent to achieve a goal.
- It provides norms, basis or yardstick for measuring performance of departments and individuals working in organizations. Individual managers can evaluate their own decision and achievement and take suitable steps to improve their performance.
- It encourages productive competition, provides incentives to perform efficiency and gives sense of purpose to achieve individuals in organization. All these positive factors lend to higher output and increase employee’s productivity.
- It helps one to distinguish between actual needs and wants. It enables the management to lay down an order of priorities and reflects some planning of long and short-term requirement in a business.
- As decentralization of responsibility is a feature of profit planning, each manager works critically in his own area of responsibility. Profit planning thus fixes the responsibility center for manager.

- It also promotes understanding among members of management on their co-workers problems.
- It tends to remove the cloud of uncertainty that exists in many firms, especially among lower level or management, relatively to basic policies and enterprise objectives.

Thus the well organized profit planning and control programs enable the management to maintain a level of profits, which will ensures the existence of the business and the fulfillment of management responsibilities (Goet, et al., 2072:1.2-1.3).

2.1.9 Budgeting

The various types of activities within a company should be coordinated by the preparation of plans of actions for future periods. These details plans are usually referred to as budgets. A budget is a detailed plan outlining the acquisition and use of financial and other resources over a given period of time. It represents the plan for the future expressed in formal quantities terms. A budget is a numerical plan of action, which generally covers the area of revenues and expenditures. A budget is a quantitative expression of a plan and an aid to co-ordination and control. A budget may be formulated for an organization as a whole or for its sub-units. Budgets, basically, are forecasted financial statements – formal expressions of managerial plans. They are targets that encompass all phases of operation including sales, production, purchasing and manpower and financing.

A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specified period in the future. Budget is estimation and predetermination of revenues and expenses that estimate how much income will be generated and how it should be spent in order to meet investment and profit requirement. It is such type of plan which shows a clear way of spending income that does not result in a loss because all the expenditures will be compared to the budget. If real costs exceed the budgeted costs, an explanation will be required. A firm with specific goals in the form of budget helps a firm to control its costs by setting guidelines for spending money for needed items. The complete budget for a firm is often called the

master budget, which includes a sales budget, a production budget, a purchase budget, an expense budget and cash budget. Once all of these budgets are completed, the master budget for the entire firm is prepared. Budgets basically are forecasted financial statements – formal expressions of managerial plan. They are targets that encompass all phases of operations – sales, productions, distributions and financials.

Some definitions of budgets are;
"A budget is a detailed plan expressed in quantitative terms that specifies how resources will be acquired and used during a specified period of time. The procedures used to develop a budget constitute a budgeting system" (Hilton, 2000: 137).

"A budget is the quantitative expression of a proposed plan of action by management for a future time period and is an aid for the coordination and implementation of the plan" (Horngrer el al., 1999:113).

The process of preparing and using budgets to achieve management objective is called budgeting. In other words, the entire process of preparing the budget is called budgeting. One systematic approach for attaining effective management performance is profit planning or budgeting; Budgeting is the numerical planning for profits covering the areas of future revenues and costs.

2.1.10 Scope and Application of Budgeting

Budget is a pervasive phenomenon, which applies in every kind of organization. The terms and functions of budgeting were firstly developed for a state's purposes but, nowadays, it has become an especially to business organizations whose practicability depends upon the size of the business. The common objective of profit planning and control system or budgeting, whether applied to national finance or business administrations is to formulate polices aimed at an objective established after consideration of the probable course of events in the future, and to provide a means for the constant comparison of actual progress toward this goal with the pre-conceived results. Since, budget is flexible and depends upon the size of the firm, the formats and rules regarding profit planning also vary according to the nature of business

organizations. A budget is prepared within the environment of relevant variables and strengths and weaknesses of an organization.

2.1.11 Objectives of Budgeting

The main objective of budgeting is to ensure the planned profit of the enterprises. So, it is considered as a task of planning and controlling the profit. One of the primary objective of an annual budget is to measure the profit expectations for the next financial year with due regard to all the circumstances favorable and unfavorable that can influence the trading prospects.

The main objective of budgeting can be summarized as follows:

- It reflects the policy of a business in financial terms and serves as a declaration of policies.
- It forecasts for future to avoid loss and to maximize profit by serving as a financial document for management to control and monitor actual performance.
- It states the firm’s expectation (goals) in clear formal terms to avoid confusion and to facilitate their attainability.
- It brings about coordination between different functions of an enterprise i.e. to help in coordination and communication so that the management expectations are understood and supported for proper implementation.
- It is a measure against which the quality of management is evaluated.
- It facilitates centralized control with delegated authority and responsibility.

2.1.12 Budgetary Control

Budgetary control is a system of controlling cost, which includes of budgets coordinating the departments and establishing responsibilities, comparing actual performance with the budgeted and outing upon the results to achieve maximum profitability. In short, the uses of budget to control a firm’s activities are known as budgetary control.

Budgetary control is the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of the policy or to provide a basis for its revision.

Budgetary control involves the followings:

- Preparing budgets.
- The business is divided into various responsibility centers for preparing various budgets.
- The actual figures are recorded.
- The budgeted and actual figures are compared for studying the performance of different cost centers.
- If actual performance is less than the budgeted norms, then a remedial action is taken immediately.

2.1.13 Purpose of Budgeting

The main purpose of budgeting can be summarized in the following points;

- To provide a realistic estimate of income and expenses for a period and of the financial position at the close of the period, detailed by areas of management responsibility.
- To provide a coordinated plan of action, that is designed to achieve the estimate reflected in the budget.
- To provide comparison of actual results with those budgets and an analysis and interpretation of deviation by areas of responsibilities to indicate course of corrective action and to lead to improvement in produces in building future plans.
- To provide a guide for management decision in adjustment plans and objectives as conditions change.
- To provide a ready basis for making forecasts during the budget period to guide the management in making day to day decisions.

2.1.14 Problems and Limitations of Budgeting

The followings are the major problems of budgeting system.

- Seeking the support and involvement of all levels of management.
- Establishing realistic objectives, polices, procedures and standards of desired performance.
- Developing meaningful forecast especially the sales plan.
- Maintaining effective follows up procedures and adapting the budgeting system wherever the circumstances changes.
- Applying the budgeting system in a flexible manner.
- Educating all individuals to be involved in the budgeting process and joining their full participation.

The following are the main limitations of budgeting system.

- Budgeting is not exact science its success links upon the precision of estimates.
- The installation of a perfect system of budgeting is not possible in a short period. Budgeting has to be a continuous exercise. It is a dynamic process.
- The success of budgetary programmed is to understand by all and the manager and subordinates put concerned effort for accomplishing the budget goal.
- Budgeting will be ineffective and expensive if it is unnecessary detailed and complicated. It should be flexible and rigid in application.
- The presence of a budgeting system should not make management complacent. To get the best results of management, management should use budgeting with intelligence and foresight. It cannot replace management.
- The purpose of budgeting will be defeated if budget goals carelessly conflict with enterprise objectives.
- Budgeting will hide inefficiencies through a proper evaluation system.
- Budgeting will lower moral and productivity if unrealistic targets are set and if it is used as a pressure tactic.

2.1.15 Sales Budget or Sales Plan

The sales plan is the foundation for periodic planning in the firm because all other enterprises planning are built on it. Sales budget or plan is the starting point of preparing profit plan, which displays the projected sales in units and rupees. The sales planning process is an essential part of profit plan and control because it provides for the basic management decision about marketing and based on these decisions. It is an organized approach for developing a comprehensive sales plan. The sales plan must be realistic and relevant because all of the other parts of profit plan are depended on sales plan. The sales budget is the forecast of total sales of the entire product expressed in terms of physical quantities, prices, and values in Respect of each product of a future budget period. The need of capital addition, the plan of expenses, the manpower requirement, production level and other important operational aspects depends on the volume of sales or revenue. A comprehensive sales plan includes two separate but related plans- the strategic and the tactical sales plan. A comprehensive sales plan incorporates such management decisions as objectives, goals, strategies and premise. Long- term/strategic and short-term/ tactical plans must be developed in harmony with comprehensive profit plan. The primary purposes of sales plan are as follows;

- To reduce uncertainty about future revenues.
- To incorporate management judgment and decisions into the planning process.
- To provide necessary information for developing other elements of comprehensive profit plan.
- To facilitate management control of sales activities.

2.1.16 Sales Planning and Sales Forecasting

Sales planning and sales forecasting are usually used synonymously but they have distinctly different purposes. A forecast is not a plan; rather it is a statement and/or a quantified assessment of future conditions about a particular subject based on one or more explicit assumptions. A forecast should always state the assumptions upon which it is based. A forecast should be viewed as only one input for the development of sales plan. The management of the company may accept, modify or reject forecast. In contrast, sales plan incorporates the management decisions that are based on the forecast, other inputs

and management judgment about such related items as sales volume, prices, efforts, production and financing. It is important to make a distinction between the sales forecast and sales plan primary because the internal technical staff should not be expected or permitted to make the fundamental management decisions and judgments implicit in every sales plan. Major differences between sales forecast and sales budget can be attributed as follows;

- The sales forecast is merely the initial estimate of future sales, where as sales plan is the projection approved by the budget committee that describes expected sales in units and rupees.
- Sales forecast is a merely well educated estimate of future expected demand of a specific product whereas sales budget is the quantitative expression of business plan and policies to be pursued in future.
- A sales plan provides standard for comparison with the result actually achieved. Thus, it is an important control device of management, whereas forecasting represents merely probable events over which no control can be exercised.
- Sales plan beings where and when sales forecast end. Sales forecast is the input to sales plan; sales plan in the foundation to profit planning and control.

2.1.17 Strategic and Tactical Sales Plan

Time dimension is an important consideration in planning. Planning range over a time spectrum that runs from the current day to a period sometimes as far as more than twenty years in the future. Practices on this score differ considerably. Generally, there are two types of planning which are as follows;

Strategic or Long Range Planning

- Strategic sales plan is the long range sales plan of an enterprise. When plans are prepared for more than five or ten years bases, then they are called long range or strategic planning. It is broad and general. It is usually developed by year and annual amount. It is prepared by considering future market potentials, population changes, state of economy, industry projections, company objectives and long term strategies because they affect in such areas as pricing, development of new product line, innovation of product, expansion or distribution channel, cost,

pattern etc. Long range as a means of planning for the future is frequently done by and is useful for government planning agencies and economic studies.

Tactical or Short Range Planning

- Tactical sales plan is the short range sales plan of an enterprise. Generally, it is developed for a short period of time usually a year, initially by quarters and by months for the quarters. The tactical sales plan includes a detailed plan for each major product and for grouping of minor products. Tactical sales plan are usually developed in terms of physical units and in sales rupees. Short term sales plan must also be structured by marketing responsibility for planning and control purposes. Short term sales plan may involve the application of technical analysis; however, judgment plays a large part in their determination.

2.1.18 Sales Budgeting as a Tool of Profit Planning

An enterprise should adopt number of budgets for the application of comprehensive profit plan. One of them is sales budget. Budgeting means deciding or estimating in advance the course of action to achieve a particular target or objectives in a given period of time along with the numerical expression of the inputs required and outputs expected.

Sales planning or budgeting provides basic management decision about marketing. Marketing decision are the basic approaches for developing comprehensive sales plan and profit plan. Therefore, sales budgeting is a necessary part of PPC for every business enterprise either they are manufacturing or non-manufacturing and either public or private enterprises. If sales plan is not realistic, most other parts of overall profit plan will not be realistic. Management should develop a realistic sales plan. If management cannot develop realistic sales plan, it will be little justified. If it is difficult to assess the future revenue of business, there will be little incentives for investment.

The prime objective of business enterprise is to generate profit. So, first consideration of sales plan must be made from profit plan. To attain planned profit, sales should be properly budgeted or planned. In today’s modern business production as well as

inventory is also for sales. All cost or expenses are planned according to sales budget. So, sales budget is the foundation of all budgets.

The sales or revenue budget forms the fundamental basis on which all the other budgets are built up. All budgets except sales budget are related with cost. On the basis of sales budget, production budget or planning is made. This planning depends on the capacity of the plant; an all other functional budgets are prepared on the basis of the production budget. In this way, sales budget is first prepared and it is variously termed as commencement of the budgeting, a nerve center or backbone of the enterprise. Foundation budget or corner stone of budgeting, initial or preliminary budget etc. by reducing the clouds of uncertainty, removing the risk of future revenues and present investment, a proper or appropriate or systemic sales budgeting directly or indirectly forms foundation for all the other budgets and ensure to receive the planned profit of the enterprise. Therefore, sales budgeting are as a tool of profit planning.

2.2 Review of Related Studies

Review of literature is the review of studies which are related and helpful to the present study. Many studies have been done about the profitability analysis and revenue planning of commercial banks. So, some of the related researches are presented below;

2.2.1 Review of Books

"The banking industry has historically faced two fundamental, interrelated problems that have made regulation necessary. The problems arise from the basic structure of the bank balance sheet: banks are highly leveraged with short-term, highly liquid debt known as deposits. The first problem is that the short maturity or highly liquid nature of deposits means that banks are constantly exposed to the prospect that some depositors could withdraw their funds. In the extreme case, a large number of depositors could run on the bank and so force it to attempt to liquidate large amount of its assets or loan. This liquidation can result in losses that end up driving the bank into insolvency. The second problem is that their high leverage creates an incentive for banks to take on very risky assets, or loans that could also drive the bank into insolvency." (Pandey, 2009:232)

“The cause of failure is often attributed to one or more of the following characteristics. Mr. Jeef Madura, in Financial Markets and Institutions, has said about bank failures.

First, fraud with in the bank could have existed. Fraud represents a wide range of activities including embezzlement of funds.

Second, a high loan default percent can lead to failure although banks recognize the potential consequence of a high loan default percentage; some continue to fail for this reason anyway. A thorough examination of any bank may show a general emphasis toward a specific industry-such as oil, shipbuilding aerospace, agriculture or national defense systems that makes it vulnerable to a slowdown in that industry (or related one). Moreover, no matter how well a band diversifies its loan; its loan portfolio is still susceptible to recessionary cycle.

A Third reason for bank failure is a liquidity crisis. If a rumor of potential failure for a particular bank circulates, depositors may begin to withdraw funds from that bank, even though the bank is insured by the FDIC. The panic can even occur when the rumor is not justified. Under these conditions, a bank may be unable to attract a sufficient amount of new deposits, and its existing deposit accounts will subside. Once deposit withdrawals begin, it’s difficult to lose the momentum. (Campbell and William, 2009:232)

A fourth reason for bank failures is increased competition. Deregulation has made the banking industry more competitive. When banks offer more competitive rates on deposit and loans, the result is a reduced net interest margin, and possibly failure if the margin is not large enough to cover other no interest expenses and loan losses.

The office of the comptroller of the currency reviewed 162 national banks that failed since 2013 and found the following common characteristics among many of these banks.

- 81 percent of banks did not have a loan policy or did not closely follow their loan policy.
- 59 percent of the banks did not use an adequate system for identifying problem loans.
- 63 percent did not adequately monitor key bank officers or department.
- At 57 percent of the banks, major corporate decisions which are made by one individual.

Because all of these characteristics are controllable at banks, it appears that many banks failed not because of the environment but because of inadequate management.

Santomero and Babbel (2001), in his book mention that, "Commercial banks and other depository institutions are in an inherently unstable situation. To some extent, they have liquid liabilities and frozen, or at least illiquid, assets. Their assets are largely in loans that have fixed future dates for repayment; there is little banks can do to accelerate the payments in the event that immediate cash is required. Their liabilities, on the other hand, are largely checking and saving deposits, which in large measure, can be converted to cash and withdrawn immediately. In this sense, they are liquid. These conditions provide the fuel necessary for a run on a bank and a full-blown banking panic. All that is needed is a spark to ignite a run. The spark usually comes in the form of a rumor, which may be true or false, that some economic event has reduced the value of bank's assets and has impaired its ability to meet its obligations to depositors.

This may lead to a panic, where a run at one bank precipitates runs at other, inherently healthy, banks. The contagion to other banks arises due to the incomplete information that bank depositors and equity holders have about the soundness of their banks. They know that banks may fail due to deterioration in general economic condition as well as due to problems that are peculiar to a particular bank. At any point in time, investors have only imperfect estimates as to whether the causes afflicting a particular failing bank will have more widespread impact. As a precautionary measure, they may seek to withdraw their funds from other banks. If enough investors do this, even the best managed bank will suffer from liquidity problems, and a panic will ensue. The problems with a panic are not that the weak banks fail but that many of the ones operating on a perfectly sound basis will also fail. The disruption to the economy from such a phenomenon is greater than society is willing to accept."

2.2.2 Review of Journals/Articles

Timilsina, (2016), *Bank credit and economic growth in Nepal : An Empirical Analysis* examines the impact of commercial bank credit to the private sector on the economic growth in Nepal from supply side perspectives. The study has applied Johansen co-integration approach and Error Correction Model using the time series data for the period

of 1975-2014. The empirical results show that bank credit to the private sector has positive effects on the economic growth in Nepal only in the long run. Nevertheless, in the short run, it has been observed a feedback effect from economic growth to private sector credit. More specifically, the growth in real private sector credit by 1 percentage point contributes to an increase in real gross domestic product by 0.40 percentage point in the long run. The empirical results imply that, policy makers should focus on long run policies to promote economic growth development of modern banking sector, efficient financial market and infrastructure so as to increase the private sector credit which is instrumental to promote growth in the long run.

Panta, (2015), *Cost Efficiency of Nepali Commercial Banks in the Context of Regulatory Change* has witnessed substantial quantitative growth in the banking sector after the regulatory reforms in early 1990s by Nepal Rastra Bank (NRB). The substantial increases in the number of banks have created intense competition among them. This has resulted in a sharp upward trend in the number of financially troubled banks. The study examined the level of cost efficiency of 18 “A” class commercial banks during the period of 2005/06 to 2011/12 by using stochastic frontier analysis. The overall result indicates that the level of cost efficiency has increased substantially over the period of time with small size banks exhibiting higher cost efficiency as compared to the medium size ones. Similarly, result also shows that change in the regulation after 2008 even though is positively related with the cost, but not statistically significant.

Bhetuwal, (2011). *Financial Liberalization and Financial Development in Nepal.* An efficient financial system can effectively mobilize and allocate resources leading to robust economic growth. Financial liberalization improves the functioning of financial system by increasing the availability of funds and allowing risk diversification and increased investment. The indices of financial liberalization and financial development, generated by the principal component analysis, depict a gradual process of financial liberalization and a continuous financial sector development. The paper finds the presence of bi-directional causal relationship between the liberalization of financial sector and level of financial development in Nepal.

Pradhan, (2015) in his work *Problem and Prospect of Financial Institutions of Nepal* said at the time of loan disbursement, the banks don't think whether he/she or company is suitable for it or not. But they think which bank can disburse loan comparatively high.

The competition is focused on increasing profit. But it will increase non-performing loan that make a loss at last.

Thapa, (2016) in his work *Various Banking and Financial Risk in Nepal* has expressed services are among the fastest growing industries in the developed world and are also emerging as cornerstones for other developing and underdeveloped nations as well. But the growth or the bubble of the same industry has proved to be a driving force for slowing down the economy in many cases."

One of them is credit risk. He said, "Presently, the non-performing loans of the commercial banks in Nepal is around 16.5 percent of the total lending and the international studied in this regard is 3.5 percent. The present economic scenario is not conducive enough to recover all these bad lending and as in other nations, we do not have any asset management companies who can productively take care of these bad assets. The consequential effect is that business investments will be and are severely hampered, as banks are skeptical to make further investments in the form of leading. In banking terms, such non-payment of promised case-flows and in extreme case, default on principal is called credit risk such risk in one of the most significant risks which the banks face and particularly in underdeveloped country like Nepal because ours is a bank based financial system. Hence, it's key that the bankers manage such risks prudently since it not only hampers the particular bank in concern but also badly affects the growth prospects of the entire economy. Credit risks are of two types. The first is the diversifiable risk or the firm specific risk, which can be mitigated by maintaining an optimum and diversified portfolio. This is due to the fact that when one sector does not do well the growth in another might offset the risk. Thus, depositors must have the knowledge of the sectors in which their banks have made lending. The second is the undiversifiable risk and is correlated across borrowers, countries, and industries. Such risk is not under the control of the firm and bank. A good example is the plummeting revenue of the hotel industry due to the dwindling tourism industry and in such cases neither the hotel industry due to the dwindling tourism industry and in such case neither the hotel is able to pay the cash nor can the bank do anything to monitor the borrowers because the entire economy as such is not generating the badly needed cash flows."

He further said Risk management of the banks is not only crucial for optimum trade off between risk and profitability but is also one of the deciding factors for the overall

business investment leading to growth of the economy. Managing such risk not only needs sheer professionalism at the organizational level but an appropriate environment also needs to be developed. Some of the major environmental problems of Nepalese banking sector are undue government intervention (in the state-owned banks), relatively weak regulatory frame, although significant improvement has been made in the last five year but still not competitive enough when we consider the international standard, meager corporate governance and the biggest of all is lack of professionalism (especially commitment). The only solution to mitigate the banking risk is to develop the badly needed commitment, eradication of corrupt environment, especially in the disbursement of lending, and to formulate prudent and conducive regulatory framework."

2.2.3 Review of Thesis

Chhetri (2010) had conducted a research on the topic, *"Profitability Position of Nabil Bank Ltd."*

The main objectives were:

- To evaluate the trend of deposits and loans and advances of Nabil and SCB.
- To evaluate the liquidity, profitability, capital structure, activity and capital adequacy position of Nabil and SCB.
- To study the strengths and weaknesses of Nabil and SCB. To study the opportunities and threats in terms of financials tools.
- To suggest and recommend some measures for the improvement of financial performance of Nabil and SCB in future.

The major Findings were:

- Loans and advances as well as total deposits of Nabil and SCB are increasing each year (study period).
- There exists positive correlation between total deposits and loans and advances of both banks.
- SCB's liquidity position is comparatively better than that of Nabil.
- Nabil's capital structure position is more risky than that of SCB in average.
- SCB's profitability position is more satisfactory than that of Nabil.

Koirala (2011) had conducted on the topic, *"Revenue planning and its impact on Profitable Operation of Nepal SBI Bank Limited."*

The main objectives were:

- To highlight the current revenue planning processes adopted and its effectiveness in NSBI Bank.
- To analyze revenue structure and major revenue sources of the bank.
- To study the growth of the revenue business of the bank over the period.
- To provide suggestion and recommendation for improvement of the overall profitability of the bank.

The major Findings were:

- Bank has no proper revenue plan.
- Incomes from off-balance sheet items are not given proper attentions.
- Bank has given attention to increasing interest income by giving best effort in utilization of the deposit and decreasing the risk from on balance sheet items by investing more in deposits.
- Income from loans, investment has major role in interest income. Bills purchase is playing major role in commission and discount income. Remittance fee is major in commission income. Similarly, LC and BG contribute more in commission income.

Lamichhane (2012) had conducted on the topic, *"Revenue Management and Its Impact on Profitability of Kumari Bank Limited.*

The main objectives were:

- To evaluate the soundness of the profitability and operating, efficiency of the bank.
- To study and analyze revenue i.e. fund based income and fee based income by proper utilization of resources.
- To evaluate cost of deposits of the bank with regards to the profitability.
- To provide suitable suggestions and recommendations to take proper action to increase profitability of the bank.

The major Findings were:

- The bank is generating higher profit by mobilizing the funds to loans and advances and investment activities.

- The bank is satisfactory generating interest income from investing its funds in outside assets.
- The earning power of the bank of total assets of the bank is found satisfactory.
- The bank is getting higher income as interest income by mobilizing the funds as outside assets.
- Comparing to interest income of the bank, other income sources of structure contributes very low to total income of the bank.
- Considering the percentage of other composition of interest income, it seems that the interest income from loans and advances has occupied highest position and second position has occupied by investment. It seems that the bank has focused more on interest income from loans and advances and investment.
- Only the growth rate of interest income from loans and advances is in decreasing trend but the bank has been able to increase interest income amount from loans and advances every year.

Rayamajhi (2014) had conducted on the topic, *"Profitability of NB Bank Ltd with Comparison – to Other Banks."*

The main objectives were:

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

The major Findings were:

- The bank has not been able to perform well in most of the criteria defined like ROE. EPS, net profit margin, loan loss provision, NPA to Credit and others as well during study period.
- The other contribution factors for the decline of performance of NB bank are high interest spread, low staff motivation and unable to provide additional services such as ATM, ABBS, credit card services, e-banking;

negative publicity of its promoters,frequent changes in top level management.

Shrestha (2015) had conducted on the topic,*"Profitability analysis of SCBL and NABIL."*

The main objectives were:

- To evaluate the soundness of profitability and operating efficiency of Nabil comparison with that of SCBL.
- To compare and analyze fund based interest income with fee based income of Nabil with SCBL in light of interest earning assets.
- To compare the cost of deposits of two banks with the profitability.

The major Findings were:

- Nabil bank has fluctuating return on total assets than SCBL. SCBL has higher ROE is higher than Nabil bank.
- Nabil bank has more consistent interest earned to LDO ratio than SCBL throughout the study period. Similarly, the ratio of return on total LDO of SCBL is higher than Nabil bank.
- Both of the sample banks interest income to total earning assets ratio are decreasing. Earning spread rate of both of the banks ratio are also decreasing. Both of them are negative sign to the bank's performance.
- Sample bank's net profit margin is decreasing every year. Nabil bank's net profit margin is more than of SCBL.

2.3 Research Gap

Many banks are not practicing various accounting tools and techniques to measure its performance in Nepal. Researcher should face problem for analyzing financial statement. Though there is significant gab between present researcher work and the previous research works. Most of the researches, profit planning tools are analyzed in one way or the other but impacts are rarely explained. Especially analyses of net burden in banks have not been done yet by other researcher. Similarly, previous researcher had only presented the calculation of aggregate interest. In this study, the calculations of interest from each heading have been presented. This study of Century Commercial Bank will also clear the contribution of public banks to build strong economic condition of the nation.

CHAPTER– III

RESEARCH METHODOLOGY

A systematic research study requires a proper methodology to achieve the set of objectives. Research methodology is a systematic method of finding solution of a problem i.e. systematic collection, recording, analysis, interpretation and reporting of data and information. Research methodology is a technique of analyzing the obtained data to solve the research problem. It consists of descriptive approach and statistical tools. Descriptive approach is used to analyze the research problem, setting hypothesis and other theoretical problem. Statistical tools are used to analyze the numerical data. Different section included in this chapter is research design, population and sample, sources and technique of data collection, coverage, and method of analysis. Researcher has used the following methodology to complete the research.

3.1 Research Design

Research design means drawing an outline of planning or arranging details and in an economic, efficient and relevant manner before the data collection and analysis. It is a process of making decisions before the situation arises in which the decision has to be carried out. Thus, research design is purely and simply the framework or plan for study that guides the collection and analysis of data. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. It guides the researcher to progress in the right direction in order to achieve the goal. It is the arrangement of conditions for collection and analysis of data that aims to combine relevance to the research purpose with economy in procedure. In short, the design of research is concerned with making controlled scientific inquiry.

This study is basically based on descriptive and analytical research. Descriptive research uses different kinds of surveys and fact finding approaches to search adequate information. Generally, it is conducted to assess the opinions, behaviors or characteristics of a given population and to describe the situation and events occurring at present. And analytical research uses facts or information readily available and analyzes these to make a critical evaluation of the material.

3.2 Population and Sample

The population refers to the industries of the same nature and its services and products in general. Thus, the total number of commercial banks constitutes the population of data and the bank under study constitutes the sample for the study. So, from the population of 27 commercial banks operating in the country, Century Commercial Bank Limited has been selected as the sample bank for the study.

3.3 Sources of Data

There are mainly two sources of data. They are primary sources and secondary sources. Primary sources of data are those which are collected by investigator or researcher from field by themselves. Secondary sources of data are those which had been collected by some individual or agency previously.

The data presented in this study are of secondary type. The annual reports or the concerned bank are the major source of data for the study. However, besides the annual reports of the concerned bank, the following sources of data have also been used in the courses of the study.

- NRB reports and bulletins.
- Various publications dealing in the subject matter of the study.
- Various article published in the newspaper.

Formal and informal talks or discussions with the concerned authorities of the bank were also helpful to obtain the additional information of the related problems.

3.4 Data Collection Techniques

This study is mainly based on secondary data obtain from various sources as mentioned above. The required annual reports of CEDBL have been obtained from its websites. The data on some aspects have been obtained from the publications and websites of NRB and NEPSE. Some supplementary data and information and literature review have been collected from the library of Nepal Commerce Campus, T. U., different journals, magazines, newspapers and other published and unpublished reports and documents by the concerned authorities.

3.5 Data Analysis Tools

Data are collected from various sources for the purpose of research and they are presented and analyzed which is the core part of the research work. The collected data are first presented in a systematic manner and are then analyzed by different financial and statistical tools to achieve the research objectives. Besides these, some graph charts and tables have been presented to analyze and interpreted the findings of the study. The applied tools are;

- Financial Tools
- Statistical Tools

3.5.1 Financial Tools

The evaluation of financial performance involves a series of techniques that can be used to help identify the strengths and weaknesses of a firm. Financial tools basically help to analyzed strengths and weaknesses of a firm. Financial ratios which use data from a firm's balance sheet, income statement, statement of cash flow and certain market data are often used when evaluating the financial performance of a firm.

Ratio analysis is a widely used financial tool to evaluate the financial position and performance of a firm. A ratio is simply one number expressed in terms of another and such it express the quantitative relationship between any two figures. Ratio analysis is a part of the whole process of analysis of financial statements of any business of industrial concern especially to take output and decisions. In this study only those ratios have been analyzed and interpreted which are related to revenue management of the bank.

3.5.2 Statistical Tools

Some important statistical tools are used to achieve the objectives of the study. In this study, statistical tools such as mean, standard deviation, coefficient of variance and trend analysis have been used.

Mean

A mean is the average value or the sum of all the observations divided by the numbers of observations and it is denoted by $\bar{x}$ and given by the formula;

$$\bar{x} = \frac{X}{N}$$

Where,

$\bar{x}$ = mean of the value

N = Number of pairs of observations

Standard Deviation

The standard deviation is the absolute measure of dispersion in which the drawbacks present in other measures of dispersion are removed. It is said to be the best measure of dispersion as it satisfies most of the requisites of a good measure of dispersion. It is denoted by a Greek letter ' ' read as sigma and given by the formula;

$$\sigma = \sqrt{\frac{(X - \bar{X})^2}{N}}$$

Where,

x = (x - $\bar{x}$)

N = Number of observations

Coefficient of Variance

The coefficient of dispersion is based on standard deviation multiplied by 100 is known as the coefficient of variation (C. V). It is denoted by the formula;

Coefficient of Variation (C.V) = $\frac{\sigma}{\bar{X}} \times 100$

It is independent of the unit. So, two distributions can bitterly compared with the help of C.V for their variability. Less the C.V; more will be the uniformity, consistency etc. and more the C.V; less will be the uniformity, consistency etc.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

Data collected from various sources are presented and analyzed in this chapter to measure the various dimensions of the problems of the study. The major findings of the study are also presented in this chapter.

4.1 Analysis of Major Composition of Revenue Heads

This part of the helps to know the major composition of different revenue sources of the bank. The major revenue sources of the bank are as follows;

4.1.1 Interest Income

The bank invests its fund in different sectors from which it gains income as interest income. It is necessary to understand where the bank invests its fund. The segregation of the interest income into different sub-sectors helps to clarify the actual position of the bank on planning its revenue and the weaknesses that has occurred in the poor side of the composition of interest income. This part of analysis shows that which sub-sector of interest income has been affected resulting in less volume of interest income and thus suggest to take corrective actions. The compositions of interest income are as follows;

- Interest income from loans, advances and overdraft.
- Interest income from investment.
- Interest income from agency balance.
- Interest income from money at call and short notice.
- Interest income from others

4.1.2 Other Income

Other income is also one of the important revenue heading of development banks. A bank always needs to focus its effort to increase its income from other sources like locker charges, renew of ATM cards etc. Other income being the less risky income, it heavily depends upon the services it provides to the customers. More and sophisticatedly the bank provides the services, more is the volume of this income. So the bank always needs to give reliable and efficient services to the customers.

4.2 Analysis of Total Interest Income to Total Income Ratio

This ratio measures the volume of interest income to total income of the bank. This ratio helps to measure the bank's performance on how well they are mobilizing their fund for the purpose of income generation as interest. The high ratio indicates the contribution made by the lending and investing activities and vice – versa. This ratio can be computed by dividing total interest income to total income.

Table 4.1

Total Interest Income to Total Income Ratio

(In, 000)

Fiscal Year	Total Interest Income	Total Income	Ratio (%)
2073/74	615,644	655,898	93.86
2074/75	1,038,456	1,078,367	96.30
2075/76	1,172,200	1,228,069	95.45
2076/77	1,678,789	1,798,546	93.34
2077/78	2,018,505	2,290,655	88.12
Mean (%)			93.41
S. D ( )			2.85
C. V			3.05

Source: Appendix – I

Figure: 4.1

Total Interest Income to Total Income Ratio

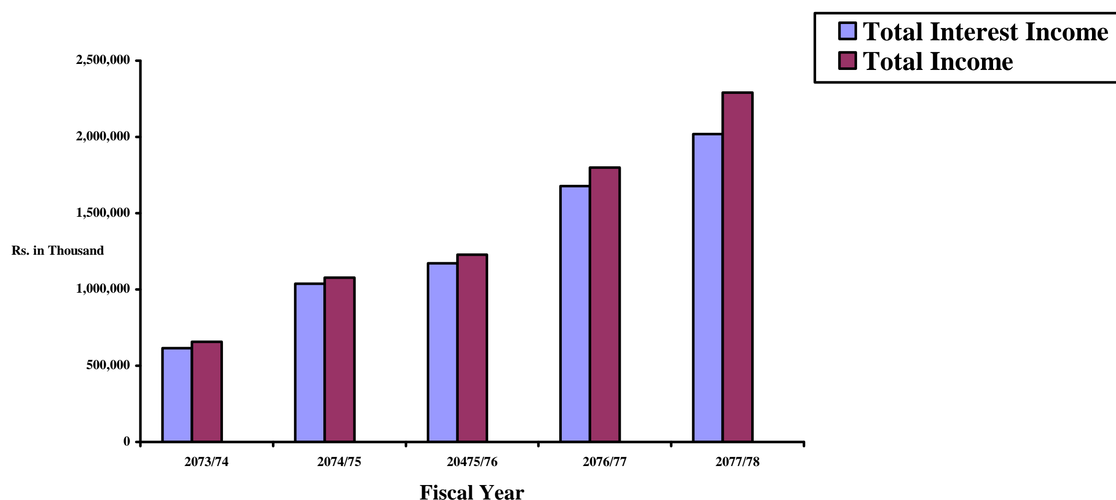

Table and figure 4.1reveal that the interest income and total income are fluctuating over the study period ranging from minimum of 93.34% in FY 2076/77 to maximum of 96.30% in FY 2074/75. The mean of the ratio is 93.41% and S. D and C. V are 2.85 and 3.05 respectively which shows that the ratios are fluctuating over the study period. In other words, yearly total interest income to total income is deviated by 2.85 units from its mean value which is average of 3.05 percent deviation from the mean. Moderate percentage of deviation means there is medium fluctuation in total interest income to total income ratio of Century Commercial Bank Limited.

The data show that the bank is generating maximum income i.e. 93.41% as interest income from its total income. This means that the bank is generating large proportion of income from mobilizing the funds to loans and advances and investment activities.

4.3 Analysis of Total Interest Income to Total outside Assets Ratio

The main assets of banks are its outside assets in the form of loans and advances and investments employed for income generation purpose. This ratio reflects the extent to which the bank is successful to earn interest as major income from outside assts. A high ratio indicates high earning power of total assets and vice – versa. This ratio is computed by dividing total interest income to total outside assets.

Table: 4.2

Total Interest Income to Total outside Assets Ratio

(In, 000)

Fiscal Year	Total Interest Income	Total Outside Assets	Ratio (%)
2073/74	615,644	5,587,709	11.02
2074/75	1,038,456	7,288,307	14.25
2075/76	1,172,200	11,637,275	10.07
2076/77	1,678,789	18,938,125	8.86
2077/78	2,018,505	24,046,945	8.38
Mean (%)			10.52
S. D ( )			2.08
C. V			19.79

Source: Appendix - II

Figure: 4.2

Total Interest Income to Total outside Asset Ratio

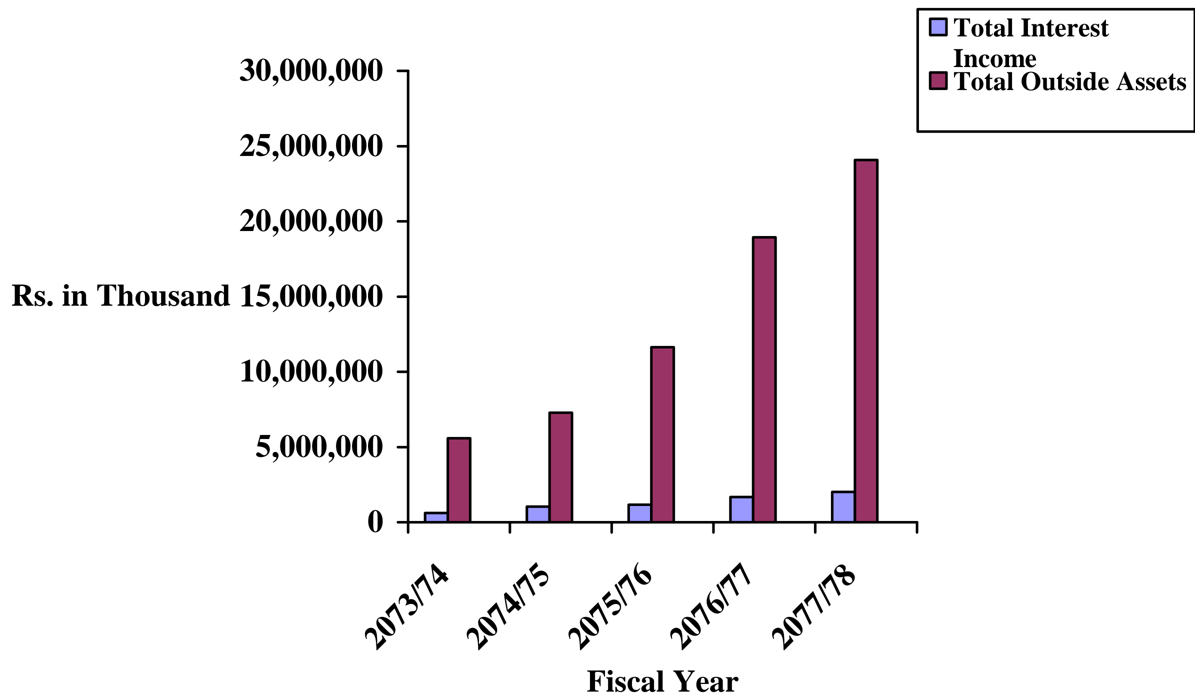

Table and figure 4.2 show that the ratios are slightly fluctuating during the study periods ranging from minimum of 8.38% in FY 2077/78 to maximum of 14.25% in FY 2074/75. The mean of the ratio is10.52% and S.D and C.V are 2.08 and 19.79 respectively which shows that the ratios are slightly fluctuating. In other words, yearly total interest income to total outside assets is deviated by 2.08 units from its mean value which is average of 19.79 percent deviation from the mean.

The banks are liberal to quote interest rate. As a result, the banks went on unhealthy competition of interest rate. This caused low interest spread which fluctuate interest income.

4.4 Analysis of Total Interest Income to Total Assets

This ratio reflects the extent to which the bank is successful in mobilizing its total assets to generate high income as interest income. A high ratio is an indicator of high earning

power of the bank's total assets and vice – versa. This ratio is calculated by dividing total interest income by total assets of the bank.

Table: 4.3
Total Interest Income to Total Assets

(In, 000)

Fiscal Year	Total Interest Income	Total Assets	Ratio (%)
2073/74	615,644	7,238,558	8.51
2074/75	1,038,456	9,363,380	11.09
2075/76	1,172,200	13,722,466	8.54
2076/77	1,678,789	21,976,539	7.64
2077/78	2,018,505	29,376,985	6.87
Mean (%)			8.53
S. D ( )			1.42
C. V			16.65

Source: Appendix - III

Figure: 4.3
Total Interest Income to Total Assets

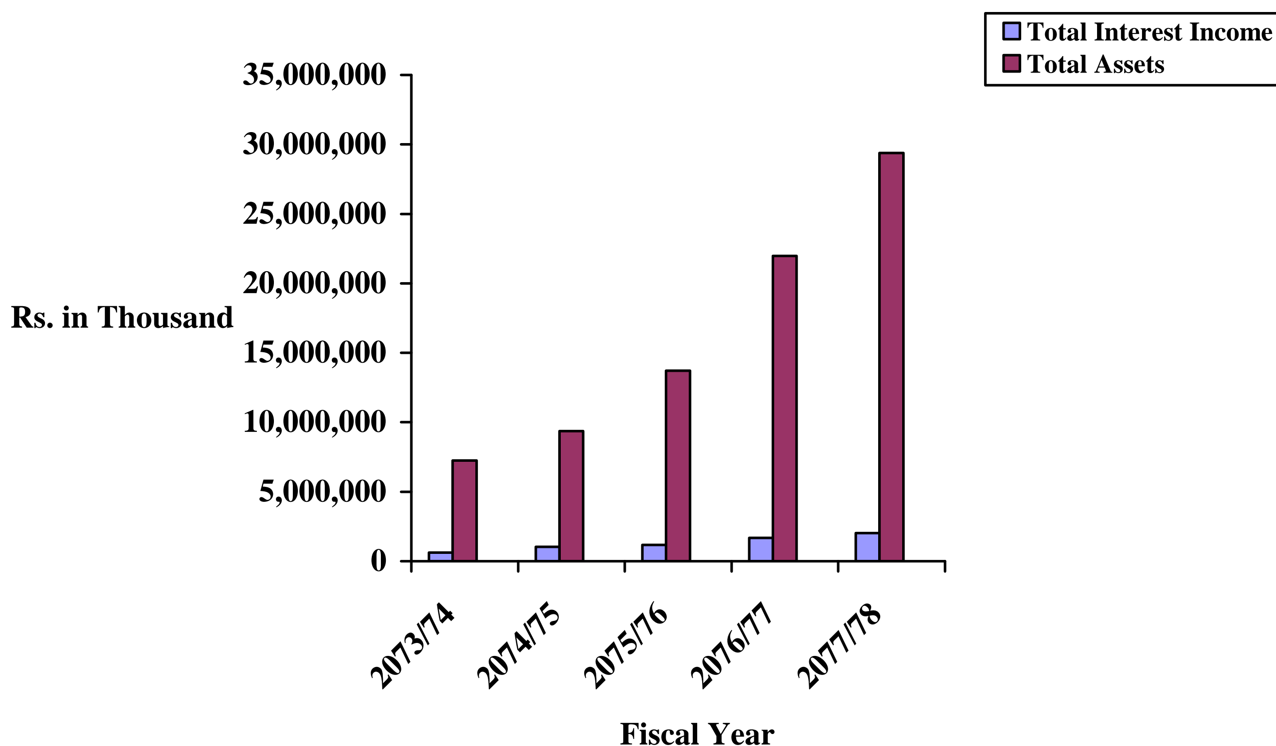

Table and figure 4.3 reveal that the ratios are ranging from minimum of 6.87% in FY 2077/78 to the maximum of 11.09% in FY 2074/75. The mean of the ratios are 8.53% and the S. D and C.V are 1.42 and 16.65 respectively. This means that the ratios are consistent over the study period. In other words, yearly total interest income to total assets is deviated by 1.42 units from its mean value which is average of 16.65 percent deviation from the mean.

The ratios are consistent over the study period which means that the bank is mobilizing its total assets satisfactory to generate high income as interest income.

4.5 Analysis of Total Interest Expenses to Total Assets

This ratio measures the percentage of total interest expenses against the total assets of the bank. A high ratio is an indicator of low earning power of the bank's total assets and vice – versa. This ratio is calculated by dividing total interest expenses to total assets.

Table 4.4

Total Interest Expenses to Total Assets

(In, 000)

Fiscal Year	Total Interest Expenses	Total Assets	Ratio (%)
2073/74	235,894	7,238,558	3.26
2074/75	399,298	9,363,380	4.26
2075/76	383,000	13,722,466	2.79
2076/77	753,616	21,976,539	3.43
2077/78	1,023,257	29,376,985	3.48
Mean (%)			3.45
S. D ( )			0.48
C. V			13.83

Source: Appendix – IV

Figure: 4.4

Total Interest Expenses to Total Assets

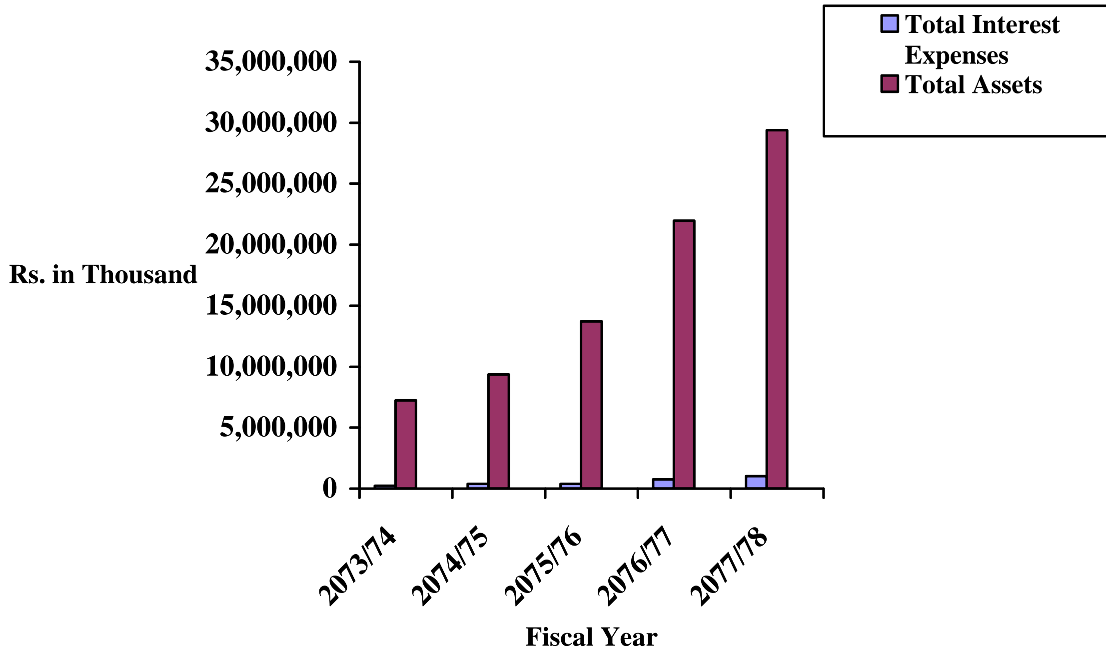

Table and figure 4.4 reveal that the ratios are ranging from minimum of 2.79% in FY 2075/76 to the maximum of 4.26% in FY 2074/75. The mean of the ratios are 3.45 and the S. D and C. V are 0.48 and 13.83 respectively which mean that the ratios are in consistent level. In other words, yearly total interest expenses to total assets is deviated by 0.48 units from its mean value which is average of 13.83 percent deviation from the mean. Moderate percentage of deviation means there is medium fluctuation in total interest expenses to total assets ratio of Century Commercial Bank Limited.

4.6 Analysis of Total Income to Total Expenses

The comparison between total income and total expenses measures the productivity of expenses in generating income. The amount of income that a unit of expenses generates is measured by total income and total expenses. The higher ratio is indicative of higher productivity of expenses and vice – versa. This is calculated by dividing total income by total expenses.

Table: 4.5

Total Income to Total Expenses

(In, 000)

Fiscal Year	Total Income	Total Expenses	Ratio (%)
2073/74	655,898	509,140	128.82
2074/75	1,078,367	523,160	206.13
2075/76	1,228,069	985,468	124.62
2076/77	1,798,546	1,308,763	137.42
2077/78	2,290,655	1,540,550	148.69
Mean (%)			149.14
S. D ( )			29.66
C. V			19.89

Source: Appendix – V

Figure: 4.5

Total Income to Total Expenses

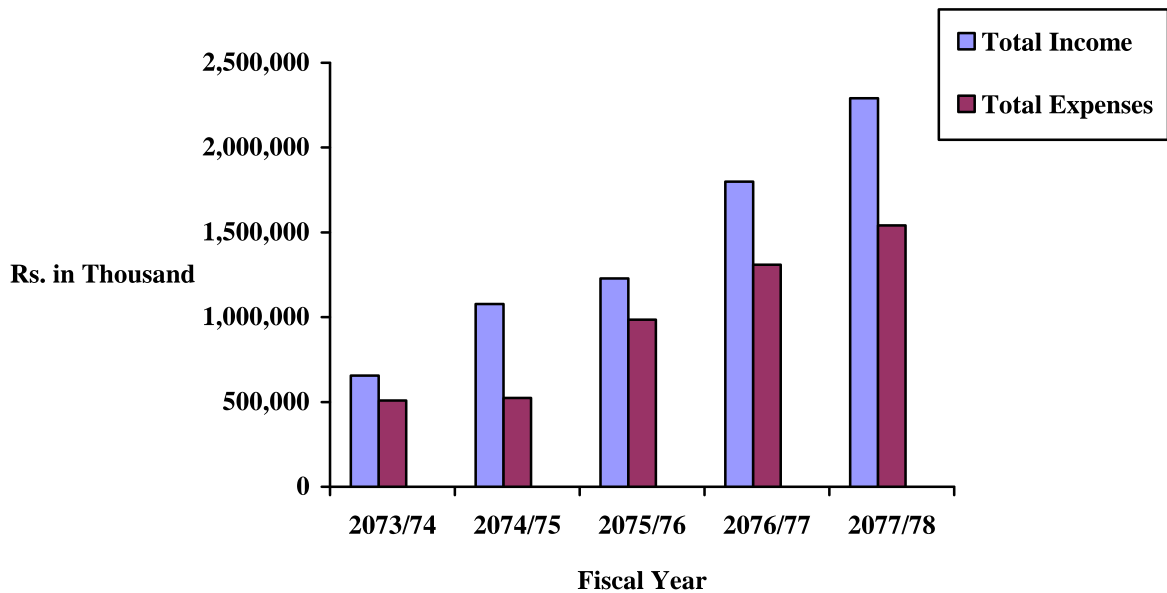

Table and figure 4.5 show that the relationship of total income to total expenses is fluctuating trend ranging from 124.62% in FY 2075/76 to 206.13 in FY 2074/75. This means total income has significantly better in FY2074/75. That per unit of expenses has generated maximum income in this FY. This shows the cost efficiency of an organization. After ratio FY2075/76 has decreased as compared to its last FY and it has

improved thereafter. Similarly, the S. D and C. V are 29.66 and 19.89 respectively which means that the ratios are little bit variable during the study period. In other words, yearly total income to total expenses is deviated by 29.66 units from its mean value which is average of 19.89 percent deviation from the mean. Moderate percentage of deviation means there is medium fluctuation in total income to total expenses of Century Commercial Bank Limited.

4.7 Analysis of Total Income to Total Assets

This ratio measures how efficiently the assets of the bank are utilized to generate total income. It also measures the quality of assets in income generation. This ratio is calculated by dividing total income by total assets.

Table: 4.6
Total Income to Total Assets

(In, 000)

Fiscal Year	Total Income	Total Assets	Ratio (%)
2073/74	655,898	7,238,558	9.06
2074/75	1,078,367	9,363,380	11.52
2075/76	1,228,069	13,722,466	8.95
2076/77	1,798,546	21,976,539	8.18
2077/78	2,290,655	29,376,985	7.80
Mean (%)			9.10
S. D ( )			1.30
C. V			14.24

Source: Appendix – VI

Figure: 4.6

Total Income to Total Assets

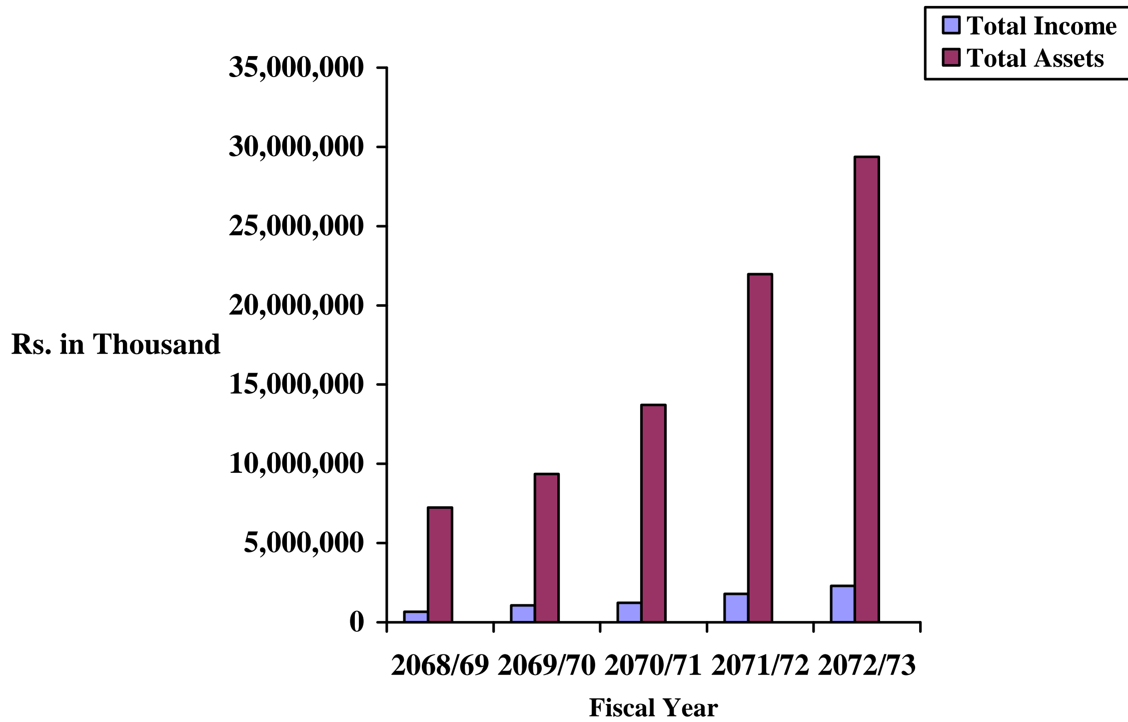

Table and figure 4.6 show that the ratios ranging from minimum of 7.80% in FY 2077/78 to maximum of 11.52% in FY 2074/75. The mean of the ratios are 9.10%. Similarly, the S. D and C.V are 1.30 and 14.24 respectively which means that the ratios are almost consistent over the study period. In other words, yearly total income to total assets is deviated by 1.30 units from its mean value which is average of 14.24 percent deviation from the mean. Moderate percentage of deviation means there is medium fluctuation in total income to total assets of Century Commercial Bank Limited.

Consistent ratios mean that the bank has given sincere attention to generate high income by utilizing its total assets. Though the study periods were not so good due to political disputes, the bank was able to earn stable income from its total assets.

4.8 Analysis of Net Interest Margin

Net interest margin in general is the difference between the interest earned from granting loans and advances and interest paid on deposits collected by the bank. It shows the

bank's efficiency to earn high profit to meet various expenses and to provide attractive return to the shareholders. Hence, the difference between interest earned and interest paid i.e. net margin is analyzed below.

Table: 4.7

Net Interest Margin

(In, 000)

Fiscal Year	Interest Income	Interest Paid	Net Interest Margin	Increased Amount	Growth Rate (%)
2073/74	615,644	399,298	216,346		
2074/75	1,038,456	383,000	655,456	439,110	202.97
2075/76	1,172,200	753,616	418,584	(236,872)	-36.14
2076/77	1,678,789	1,023,257	655,532	236,948	56.61
2077/78	2,018,505	1,199,787	818,718	163,186	24.89

Source: Annual Reports

Table 4.7 shows that the net interest margin is increasing every year except FY 2075/76 and bank has negative growth rate of 36.14 on FY 2075/76. Growth rate of net interest margin is highly fluctuating. The growth rate for FY 2073/74 is not presented due to not considering previous year. The growth rate in FY 2074/75 is 202.97% which is very high. This is because when the previous year nil even the little growth will be higher in next year. The growth rate is continuously decreasing to the minimum of 24.89% in FY 2077/78.

During the initial period of opening the bank, interest rate on deposit was offered high to attract the deposit. So, the growth rate was high. In the successive years of study periods, due to excess liquidity in the market, the bank lowered interest rate on deposit. When the interest rate on deposit is low, the bank also lowers its interest rates on lending and vice versa which will cause changes in interest spread. This ultimately makes changes in net interest margin.

4.9 Growth Analysis of Major Revenue Heads

This part of the analysis helps to make clear vision over the major revenue heads of the bank. The bank's effort on increasing the revenue can be clearly judged from this

analysis. Whether the bank's revenue is increasing, decreasing or consistent during the study period is analyzed in this section.

The major revenue sources of the bank are as follows;

i. **Interest Income**
   - Income from loans and advances and overdraft.
   - Income from investment

ii. **Commission and Discount Income**
   - Bills purchased and Discount
   - L/Cs commission
   - Guarantees fees
   - Remittance fees
   - Collection fees

iii. **Other Income**
   - TT/SWIFT charges
   - Service charges

4.9.1 Interest Income

Among various sources of income of the bank, interest income of the bank is the main and important source. Hence, steady increase in interest income is the positive sign for the bank and vice versa. Interest income during the study period is analyzed below;

Interest Income from Loans and Advances and Overdraft

The main business of the bank is to provide loans and advances to the customers. The bank provides loans and advances from the deposits it collects from them. The interest income from this category depends upon the quality of loans and advances it provides to the customers. The steady increase in interest income from loans and advances shows that the bank is able to earn sufficient interest income from this category of lending. Interest income from loans and advances and overdraft is analyzed below;

Table: 4.8

Interest Income from Loans, Advances and Overdraft

(In, 000)

FY	Income from Loans &	Increased	Growth Rate (%)
2073/74	552,530		
2074/75	851,756	299,226	54.16
2075/76	1,067,153	215,397	25.29
2076/77	1,623,745	556,592	52.16
2077/78	1,934,145	310,400	19.12

Source: Annual Reports

The growth rate for the FY 2073/74 is not presented due to not considering previous year. The above table 4.8 shows that the bank is able to earn 54.16% interest income from loans and advances and overdraft in FY 2074/75. This shows that the bank focused on providing loans and advances and also in recovery of interest. The growth rate of interest income is maximum to 54.16% in FY 2074/75. The growth rate in FY 2077/78 is 19.12% which is the lowest among all. This might be the adverse situation of the country which resulted high interest suspense.

Investment Income

Income from investment is the second major source of interest income of the bank. Banks utilize its money in the secured and profitable sectors of investment. Banks generally invest in treasury bills, development bonds, national saving certificates, foreign securities, NRB bonds and licensed institutions from NRB. Investments in these sectors are considered as risk free. So, interest income from investment is considered to be more secured than interest income from loans and advances. The growth of investment income is analyzed below;

Table: 4.9

Interest Income from Investment

(In, 000)

FY	Income from	Increased	Growth Rate (%)
2073/74	63,114		
2074/75	186,700	123,586	195.81
2075/76	105,047	(81,653)	-43.73
2076/77	55,045	(50,002)	-47.60
2077/78	84,326	29,281	53.19

Source: Annual Reports

The growth rate for the FY 2073/74 is not presented due to not considering previous year. The growth rate in FY 2074/75 is 195.81% which is maximum as compared to all fiscal years. This shows that the bank was successful in investing in secured sectors in this year. But from FY2075/76 the growth from investment income has decreased by 43.73% and 47.60 in FY 2075/76 and FY 2076/77 respectively. This means that the investment income has decreased in this year was less than previous year.

4.9.2 Income from Commission and Discount

Commission and discount income is also one of the important sources of bank's income. Hence, income from commission and discount is analyzed below;

Table: 4.10

Income from Commission and Discount

(In, 000)

FY	Commission and	Increased Amount	Growth Rate (%)
2073/74	3,908		
2074/75	4,949	1,041	26.64
2075/76	11,251	6,302	127.34
2076/77	23,667	12,416	110.35
2077/78	39,824	16,157	68.27

Source: Annual Reports

The growth rate for the FY 2073/74 is not presented due to not considering previous year. The bank was able to earn 127.34% commission and discount income in FY2075/76 which is the highest growth among all. The growth rate has been gradually decreased at FY2076/77. This all indicate that the commission and discount income has been increased every year but the growth rate shows that it is decreasing trend. So, the bank must be alert to increase this income.

Commission from letter of credit (L/C)

Bank and Financial Institutions Ordinance, 2003 defines a Letter of Credit as: "Letter of credit means a letter written by one bank or financial institutions to another bank or financial institutions authorizing the letter to accept cheques, drafts, hundies or bills or exchange or any specified person within the limit of the amount specified therein". So, letter of credit is a non funded business of the bank. It is a contingent liability of the bank. Thus, letter of credit is a kind of facility provided by the bank to their customers, by the way of which the customer can import the goods from foreign seller for which the bank undertake the guarantee for payment under which the terms and conditions and documents of letter of credit is complied with. Against the contingent liabilities borne by the bank, it charges certain fee or commission which is the income of the bank. Hence, income from letter credit is analyzed below;

Table: 4.11

Income from Letter of Credit (L/C)

(In, 000)

FY	Commission from L/C	Increased Amount	Growth Rate (%)
2073/74	-		
2074/75	-	-	-
2075/76	109	109	-
2076/77	5,387	5,278	4,842.20
2077/78	7,006	1,619	30.05

Source: Annual Reports

Since bank has started it letter of credit after being upgraded to "A" Class Commercial Bank since FY 2075/76. Bank has achieved growth rate of maximum 4842.20% in FY 2076/77. Since the bank has already started to initiated letter of credit facility and bank

has huge possibilities to enhance its not interest income by promotion its letter of credit facilities. Bank has expected to achieve growth income from L/C expected in coming years otherwise inconsistency will show the inability of the bank to find the right and regular big L/C customers.

Commission from Bank Guarantees

A guarantee is an undertaking on behalf of the third party to make payment or fulfill the contractual obligations in case of default. In other words, a guarantee can be defined as an undertaking by a surety (guarantor) on behalf of the debtor (applicant) to the creditor (beneficiary) for payment up to a certain amount within a stipulated period for breach of contract or non fulfillment of obligations by the debtor. For this contingent liability borne, the bank charges certain commission which is the income of the bank under this revenue head. Hence, income from bank guarantee is analyzed below;

Table 4.12
Income from Bank Guarantee

(In, 000)

FY	Income from Bank Guarantee	Increased Amount	Growth Rate (%)
2073/74	2,384		
2074/75	2,482	98	4.11
2075/76	5,724	3,242	130.62
2076/77	6,821	1,097	19.16
2077/78	11,759	4,938	72.39

Source: Annual Reports

The growth rate for the FY 2073/74 is not presented due to not considering previous year. Table 4.12 shows that the bank has positive growth during all FY. But the growth rate is inconsistent. The growth rate in FY 2075/76 is 130.62% which is the highest. The growth rate has been decreased to the growth rate of 4.11% in FY 2074/75. The bank must be alert upon the decreased growth rate of this income. Though the improvement has been noticed in FY 2075/76, the same case of decreasing trend can be revised if not given proper attention.

Income from Remittance

Remittance is the process of transferring or receiving fund from one place to another through various modes of payment such as draft, payment through fax message, pay order, electronic money transfer etc. Outward remittance is the process of sending fund to some other branch or bank within or out of the country. Inward remittance is to receive fund from some other branch or bank. The bank charges certain fee or commission for outward or inward remittances. The income received by the bank for this purpose is included in the remittance income. Hence, remittance income is analyzed below;

Table: 4.13
Income from Remittance

(In, 000)

FY	Income from Remittance	Increased Amount	Growth Rate (%)
2073/74	188		
2074/75	997	809	430.32
2075/76	2,834	1,387	139.12
2076/77	5,508	3,124	131.04
2077/78	8,913	3,405	61.82

Source: Annual Reports

The growth rate for the FY 2073/74 is not presented due to not considering previous year. Table 4.13 shows that the bank has decreasing growth rate in remittance income during the study period. Bank has aggressively promote their remittance service facility. Bank has started its own remittance with remit named as “Century Xpress”. Bank has achieved highest growth rate of 430.32% in FY2074/75. Thought the growth has declined since then but in terms of figure there is huge improvement toward its contribution of total not interest income.

Though the remittance income has been increasing every year, it is in fluctuating trend. So, the bank must give proper attention to increase this income and gain consistent growth.

4.10 Net Burden

Net burden is the overall expenses of the bank except interest expenses incurred for the payment of deposit funds. That is the operation cost of the bank except cost of the deposit. Nature of this cost is semi fixed where as interest cost is variable cost. Net burden is net amount of burden cost obtained from the difference between other expenses and other income except interest expenses and incomes.

Following table shows the status of net burden of the bank during the study period.

Table: 4.14
Net Burden

(In, 000)

FY	Total Income except Interest Income	Total Expenses except Interest Expenses	Net Burden
2073/74	40,254.00	109,842.00	69,588.00
2074/75	39,911.00	140,160.00	100,249.00
2075/76	55,869.00	231,852.00	175,983.00
2076/77	119,757.00	285,506.00	165,749.00
2077/78	272,150.00	340,763.00	68,613.00

Source: Annual Reports

Table 4.14 shows that along with the increment of income and expenses, net burden of the bank has also increased. The bank had low net burden in FY 2077/78 and highest in FY 2075/76. This means that every year net burden of the bank is increasing till FY 2075/76. Since then new burden has reduce in FY 2076/77. Increase in net burden means increase in semi fixed cost of the bank which deteriorates the strength of the bank in making more profit.

Comparing to other expenses, other income of the bank is very low. To minimize the net burden of the bank, it must focus on increasing the income locker charges, service charges, ATM cards, commission and discount. These income heads have contributed less on other income. The bank is also lacing to increase non fund also means inefficiency of the bank in managing expenses.

4.11 Major Findings of the Study

After the analytical study of subject matter of the study, it is the major responsibility of the researcher to find out the major facts of the study. Only the analytical part of the study is not the complete study of the research. The researcher must point out the findings of the study so that it will be meaningful and helpful to take corrective actions.

Here, the researcher has made effort to point out some major findings of various aspects of revenue planning of Century Commercial Bank Limited by using important financials as well as statistical tools. The objective of the researcher is not only to study and analyze the subject matter but also to find some major facts and to provide suggestions which will be helpful to the concerned parties to take corrective actions.

The major findings of the study that are derived from preceding sections of this chapter are as follows;

- The interest income and total income are in fluctuating trend.
- The total interest incomes to total outside assets ratio are slightly fluctuating. This made bank to go on unhealthy competition of interest rate.
- The total interest income to total assets ratios are consistent over the study period which means that the bank is mobilizing its total assets satisfactory to generate high income as interest income.
- The relationship of total income to total assets is almost consistent which means that the bank has given sincere attention to generate high income by utilizing its total assets.
- The net interest margin is increasing every year but the growth rate of net interest margin is highly fluctuating.
- Growth rate on interest income from investment is in decreasing trend.
- Income from commission and discount, letter of credit, bank guarantee and remittance are increasing every year.
- The net burden of the bank has also increased which means the semi fixed cost and expenses of the bank has increased. This make bank weak in making more profit. The bank is unable to track the other expenses and increase the fees from non fund based transactions. The amount of net burden clearly shows that the bank has less effort in fee based and commission based transaction.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This is the last chapter of the study. This chapter is divided into three sections viz. summary, conclusion and recommendations. The study in brief is presented in first section i.e. summary. Then in second section, what conclusions have been derived from the study is presented. And in the last section, some useful suggestions and recommendations are made so that the bank can increase revenue income. The conclusion and recommendations are made based upon the findings from the study.

5.1 Summary

Nepal is one of the developing countries of the world. Though it is very rich in natural resources and hydro power, it is not developed as expected. This is because of lack of technical ability, entrepreneurship, capital and skilled manpower. Also mass poverty, dependency on agriculture and foreign trade are characteristics of Nepalese economy. To overcome these characteristics, the country must develop its economic environment. The development of any country heavily depends upon the economic development. Nepalese economy is also highly correlated with the economy of two largest countries India and China.

Financial sectors play an important role in the economic development of the country. It is the financial sector which pools scattered funds and channels to productive uses. Financial institutions are the intermediaries between the surplus and deficit sectors of the economy. Financial institutions like banks play an important role in proper utilization of the funds in the economy. Financial institutions which are monitored and controlled by NRB generate income from various revenue heads like interest income, commission and discount and service charges. So, the banks must have proper revenue planning system.

The bank is the capital circulatory system of the economy; thus, assessing the financial condition of commercial banks is an important step in the risk management process to forecast the economic situation. Credit risk is one of the causes of the weaknesses of the commercial banking system, leading to restructuring in recent years. This study is related with revenue management of Century Commercial Bank Limited. The study is basically based on secondary data. The data are collected from annual reports, journals, magazines,

newspapers and relevant unpublished master's thesis. Besides, personal contacts with bank's personnel have been made. The main objective of the study is to evaluate the soundness of profitability and operating efficiency of the bank which have been constraints by various limitations. The data have been analyzed by financial as well as statistical tools and interpreted accordingly. Under financial tools, profitability ratios have been used. And under statistical tools; mean, standard deviation, coefficient of variance and trend analysis have been used. The analysis and interpretation of data and major findings give clear picture of the performance of the bank with regards to its revenue management.

5.2 Conclusion

The overall performance of the bank is satisfactory. Total interest income to total income ratio is consistent over the study periods. The total interest incomes to total outside assets ratio are slightly fluctuating due to unhealthy competition of interest rate. However interest income of bank is satisfactory. Bank has mobilized its assets efficiently to generate high income as interest income. Due to the increasing trend in deposit interest expenses has increased. The total expenses are found to be less than total interest earned. Per unit of expense is satisfactorily generating income that covers expense. Net profit of the bank is has increased significantly as compared with last five years. Though the study periods were not so good due to political instability, total income to total assets ratio is found consistent. The income from commission and discount has been increased every year but in fluctuating trend.

The growth rate of income from L/C, bank guarantee and remittance is increasing but growth rate of guarantee income is highly fluctuating. Net burden of the bank is in increasing trend. Margin of safety is also higher. The continuous increase in net burden means the bank is unable to manage its expenses. However bank has improve it net burden in FY 2076/77 which shows positive sign to the profitability of bank.

5.3 Recommendations

On the basis of analysis and findings of the study, following recommendations are made to increase revenue of the bank.

- The proportion of the transactions with loans and advances is very low. This means that the bank is getting more income from fund based transactions only. The bank is lacking its focus on fee based transactions from which bank can earn higher income as fees and commission. So, Bank should give more priority to increase fee based transactions.
- Bank should focus on diversifying its exposure on outside assets efficiently to minimize its unhealthy competition.
- Bank should mobilize it assets and to exploit the opportunities to increase bank profitability.
- Bank should focus on low cost saving deposit rather than high cost fixed deposit and institution deposits. This will help bank to minimize the interest expenses.
- Bank should be cost effective. Every per unit expenses of the bank should have its impact on its profitability.
- Bank should continue to given sincere attention to generate high income by utilizing its total assets to optimum level.
- Bank should concentrate to widen the net margin between interest income and interest cost. Bank should solicit low cost deposit and try to increase the yield on their loan and investment.
- Bank should retain its growth on loan, advance and overdraft to retain healthy growth of interest income.
- Bank has failed to make gain the growth in interest income from investment. Bank should look for better investment opportunities to gain the maximum benefits.
- The bank should revise its fee and commission charges and rates as per demand in the market. Nepalese economy is sustained by the help of remittance that comes from abroad. Bank should put more effort to increase number of local and international channels to attract customers to remit money. Issuance of draft, TT will also help to increase the bank's fee based income. Regarding high demand and easy processing, it is recommended to start credit cards business. It is recommended to have locker facility at each and every branch.
- Along with interest expenses, other expenses of the bank are also increasing every year. Therefore, the bank should adopt control mechanism to lower net burden.

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APPENDIX

Appendix-I

Calculation of Mean, S.D & C.V. of Total Interest Income to Total Income Ratio

Fiscal Year	Ratio (X) %	$(X-\bar{X})$	$(X-\bar{X})^2$
2073/74	93.86	0.45	0.19892
2074/75	96.30	2.89	8.329
2075/76	95.45	2.04	4.1453
2076/77	93.34	-0.07	0.00548
2077/78	88.12	-5.29	28.0264
N = 5	**X = 467.07**		**$(X-\bar{X})^2$ = 40.70512**

We have,

$$\text{Mean } (\bar{X}) = \frac{X}{N} = \frac{467.07}{5} = 93.41\%$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{40.70512}{5}} = 2.85$$

$$\text{Coefficient Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100 = \frac{2.85}{93.41} \times 100 = 3.05$$

Appendix II

Calculation of Mean, S.D & C.V. of Total Interest Income to Total outside Assets Ratio

Fiscal Year	Ratio (X) %	$(X-\bar{X})$	$(X-\bar{X})^2$
2073/74	11.02	0.504	0.254016
2074/75	14.25	3.734	13.94276
2075/76	10.07	-0.446	0.198916
2076/77	8.86	-1.656	2.742336
2077/78	8.38	-2.136	4.562496
N = 5	**X = 52.58**		$(X-\bar{X})^2$ = 21.70052

We have,

$$\text{Mean } (\bar{X}) = \frac{X}{N} = \frac{52.58}{5} = 10.52\%$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{21.70052}{5}} = 2.08$$

$$\text{Coefficient Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100 = \frac{2.08}{10.52} \times 100 = 19.78ss$$

Appendix III

Calculation of Mean, S.D & C.V. of Total Interest Income to Total Assets Ratio

Fiscal Year	**Ratio (X) %**	**$(X- \bar{X})$**	**$(X- \bar{X})^2$**
2073/74	8.51	-0.02	0.0004
2074/75	11.09	2.56	6.5536
2075/76	8.54	0.01	0.0001
2076/77	7.64	-0.89	0.7921
2077/78	6.87	-1.66	2.7556
N = 5	**X = 42.65**		**$(X- \bar{X})^2$** = 10.1018

We have,

Mean $(\bar{X}) = \frac{X}{N} = \frac{42.65}{5} = 8.53\%$

Standard Deviation ∫∃ΑX $\sqrt{\frac{(X Z \bar{X})^2}{N}} = \sqrt{\frac{10.1018}{5}} = 1.42$

Coefficient Variation (C.V) = $\frac{∃}{\bar{X}}$ | 100 = $\frac{2.020}{8.53}$ | 100 = 16.67

Appendix IV

Calculation of Mean, S.D & C.V. of Total Interest Expenses to Total Assets Ratio

Fiscal Year	Ratio (X) %	(X- $\bar{X}$)	(X- $\bar{X}$)^2
2073/74	3.26	-0.184	0.033856
2074/75	4.26	0.816	0.665856
2075/76	2.79	-0.654	0.427716
2076/77	3.43	-0.014	0.000196
2077/78	3.48	0.036	0.001296
N = 5	**X** =17.22		**(X-** $\bar{X}$ **)**^{2} =1.12892

We have,

$$\text{Mean}\ (\bar{X}) = \frac{X}{N} = \frac{17.22}{5} = 3.45\%$$

$$\text{Standard Deviation}\ (\sigma) = \sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{1.12892}{5}} = 0.48$$

$$\text{Coefficient Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100 = \frac{0.48}{3.45} \times 100 = 13.83$$

Appendix V

Calculation of Mean, S.D & C.V. of Total Interest Income to Total Expenses Ratio

Fiscal Year	Ratio (X) %	$(X-\bar{X})$	$(X-\bar{X})^2$
2073/74	128.82	-20.316	412.73986
2074/75	206.13	56.994	3248.316
2075/76	124.62	-24.516	601.03426
2076/77	137.42	-11.716	137.26466
2077/78	148.69	-0.446	0.198916
N = 5	**X = 745.68**		$(X-\bar{X})^2$ = 4399.55372

We have,

$$\text{Mean } (\bar{X}) = \frac{X}{N} = \frac{745.68}{5} = 149.14\%$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{4399.55372}{5}} = 29.66$$

$$\text{Coefficient Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100 = \frac{29.66}{149.14} \times 100 = 19.89$$

Appendix VI

Calculation of Mean, S.D & C.V. of Total Income to Total Assets Ratio

Fiscal Year	Ratio (X) %	$(X-\bar{X})$	$(X-\bar{X})^2$
2073/74	9.06	-0.042	0.001764
2074/75	11.52	2.418	5.846724
2075/76	8.95	-0.152	0.023104
2076/77	8.18	-0.922	0.850084
2077/78	7.8	-1.302	1.695204
N = 5	**X = 45.51**		$(X-\bar{X})^2$ = 8.41688

We have,

$$\text{Mean}(\bar{X}) = \frac{X}{N} = \frac{45.51}{5} = 9.10\%$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{(X-\bar{X})^2}{N}} = \sqrt{\frac{8.41688}{5}} = 1.30$$

$$\text{Coefficient Variation (C.V)} = \frac{\sigma}{\bar{X}} \times 100 = \frac{1.30}{9.10} \times 100 = 14.24$$