



**IMPLEMENTATION OF
PROFIT PLANNING TECHNIQUES IN
COMMERCIAL BANKS
(A Case Study of Nepal Investment Bank Limited)**

**Submitted By :
Amardip Yadav
R.R.M. Campus
Exam Roll No. : 140007
Class Roll No. : 100/065
T.U. Regd. No: 7-1-14-974-97**

**A Thesis Submitted To :
Office of the Dean
Faculty of Management
Tribhuvan University**

**In partial fulfillment of the requirements for the degree of
Master of Business Studies (MBS)**

**Janakpurdham, Nepal
April, 2013**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Amardip Yadav

Entitled:

**Implementation of Profit Planning Techniques in Commercial Banks
(A Case Study of Nepal Investment Bank Limited)**

has been prepared as approved by this Department in the prescribed format of faculty of Management. This thesis is forwarded for examination.

Chairperson of Research Committee

Signature:-

Name :- Dr. Shailendra Labh Karn

Date:

Campus Chief

Signature:-

Name :- Mr. Vishnu Deo Yadav

Date:-

Thesis Supervisor

Signature:-

Name : Mr. Ram Naresh Thakur

Date:

Assistant Campus Chief

Signature:-

Name: Mr. Jugeshwar Sah

Date:

VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

Amardip Yadav

Entitled:

**Implementation of Profit Planning Techniques in Commercial Banks
(A Case Study of Nepal Investment Bank Limited)**

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

Master of Business Studies (MBS)

Viva-Voce Committee

Chairperson (Research Committee) _____

Member (Thesis Supervisor) _____

Member (External Expert) _____

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Implementation of Profit Planning Techniques in Commercial Banks (A Case Study of Nepal Investment Bank Limited)**” submitted to R.R.M. Campus, Faculty of Management Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Mr. Ram Naresh Thakur Faculty of Management R.R.M. Campus Janakpur.

Date :-

Amardip Yadav

Researcher

R.R.M.Campus, Janakpur

Roll No. : 100/2065

ACKNOWLEDGEMENT

Many helpful hands are needed to complete a beautiful work. After completion of work, immense joy can be experienced. I'm extremely grateful with all of them who have helped, guided and supervised to complete this work.

I would like to pay my sincere thanks to Mr. Vishnu Deo Yadav Chief of R.R.M. Campus, Prof. Dr. Shailendra Labh Karn Head of Research Department and Mr. Ram Naresh Thakur for the supervision and constant guidance. I would like to express my cordial gratitude to all my respected teacher as well as all the staffs of R.R.M. Campus.

I extend my deep gratitude to my family Members Father, Mother, Brother, Sisters, to my friends for their support and perpetual cooperation.

I am thankful all the staff members of Library for their manifold helps and providing good environment for this study.

Last but not least I am responsible for any errors that may have remained in this work.

.....

Amardip Yadav

(Researcher)

CONTENTS

Page

Recommendation

Viva – Voce Sheet

Declaration

Acknowledgements

Contents

List of Tables

Abbreviation

CHAPTER I: INTRODUCTION

1

1.1 Background of the Study

1

1.2 Nepalese Economy - Current Macroeconomic Condition

5

1.3 Meaning and Importance of Financial Institutions

8

1.3.1 Major Financial Policy of Nepal

9

1.4 Histories and Development of Banks

13

1.5 Statement of Problems

15

1.6 Objectives of the Study

16

1.7 Profit of NIBL

16

1.8 Limitations of the Study

19

1.9 Organization of the Study

20

CHAPTER II: REVIEW OF LITERATURE

21

2.1 Introduction

21

2.2 Concept of Commercial Bank

21

2.2.1 NRB Regulation

22

2.2.2 Evolution of Commercial Bank

22

2.2.3 Existing Scenario of Banking Sector

26

2.2.4 Domestic Legal Provisions Regarding Banking Sector

27

2.2.5 Existing rules and regulations relating to the commercial
banks

30

2.2.6	Activities of a Commercial Bank	33
2.2.7	Impact of National and International Situation on Commercial Bank	33
2.3	Profit Planning as a Concept	34
2.4	Mechanism of Profit Planning	37
2.4.1	Profit as a Concept	37
2.4.2	Long Term and Short Term Profit Planning	38
2.4.3	Concept of Planning and Control	38
2.5	Merits and Demerits of Profit Planning Technique	40
2.6	Profit Planning in Commercial Banks	41
2.6.1	Planning for Resources	41
2.6.2	Non-Fund Consuming Income Plan	43
2.6.3	Planning for Expenditure	43
2.6.4	Planning for Revenue	44
2.7	Application of Profit Plan in Banking Sector	45
2.8	Execution	45
2.9	Review of Previous Studies	46
2.10	Research Gap	53
	CHAPTER III: RESEARCH METHODOLOGY	55
3.1	Introduction	55
3.2	Research Design	56
3.3	Population and Sample	56
3.4	Sources and Collection of Data	56
3.5	Study Variables	57
3.6	Analytical Tools	57
3.6.1	Statistical and Mathematical Tools	57
3.6.2	Financial Tools	60

CHAPTER IV: PRESENTATION AND ANALYSIS OF DATA 61

4.1	General Introduction of Nepal Investment Bank (NIBL)	61
4.4.1	Mission Statement of NIBL	62
4.2	General Activities of NIBL	63
4.3	Profit Plan of Nepal Investment Bank Limited (NIBL)	63
4.3.1	Human Resources and Branch Offices of NIBL	64
4.3.2	Resource Mobilization Planning	64
4.3.3	Customer Deposit Collection	66
4.3.4	Deposit Collection Budget of NIBL	67
4.3.5	Movement in Deposit Collection of NIBL	71
4.3.6	Other Resources of NIBL	72
4.4	Resources Deployment Plan of NIBL	44
4.1.1	Total Deployment of NIBL	79
4.4.2	Budgeted and Actual LDO of NIBL	79
4.4.3	Movement in LDO of NIBL	83
4.4.4	Resources Deployment in Other Sector (NLDO)	84
4.4.5	Actual Deposit and Outstanding LDO of NIBL	86
4.4.6	Plans for Non Fund Consuming Business Activities	88
4.4.6.1	Letter of Credit (LC) Business of NIBL	90
4.4.6.2	Bank Guarantee Business of NIBL	91
4.5	Planning for Expenditure of NIBL	93
4.5.1	Interest Expenses	96
4.5.2	Non-Interest Expenses	97
4.5.3	LDO Verses Loan Loss Provision of NIBL	99
4.6	Revenue Planning of NIBL	101
4.6.1	Interest Income	101
4.6.2	Income Other Than Interest	101
4.6.3	Interest Margin	106

4.7	Burden of NIBL	107
4.8	Net Profit and Los of NIBL	109
4.9	Performance Evaluation of NIBL	111
4.9.1	Ratio Analysis	111
4.9.1.1	Liquidity Ratio	112
4.9.1.2	Leverage Ratio	113
4.9.1.3	Debt-Equity Ratio	114
4.9.1.4	Interest Coverage Ratio (ICR)	116
4.9.1.5	Activity Ratio	116
4.9.1.6	Profitability Ratio	118
4.9.2	Cost Volume Profit Analysis	119
4.9.2.1	BEP in terms of Interest Margin	119
4.9.2.2	Margin of Safety of NIBL	120
4.9.2.4	BEP in terms of Volume of o/s LDO	121
4.9.2.5	BEP in terms of Volume of Deposit:	123
4.10	Major Findings of the Study	124

CHAPTER-V: SUMMARY, CONCLUSIONS AND

RECOMMENDATIONS

128-132

5.1	Introduction	128
5.2	Summary	128
5.3	Conclusion	129
5.4	Recommendations	130

BIBLIOGRAPHY

133-137

APPENDIX

LIST OF TABLES

	Pages
Table 4.1: Status of Personnel in NIBL	64
Table 4.2: Status of Branches of NIBL	64
Table 4.3: Status of Available Resources of NIBL	65
Table 4.4: Status of Budgeted and Actual Deposit Collection	67
Table 4.5: Summary of deposit Collection Budget and Actual Deposit	69
Table 4.6: Movement of Deposit Collection of NIBL	71
Table 4.7: Other Resources of NIBL	72
Table 4.8: Summary of budgeted and Actual Resources of NIBL	73
Table 4.9: Total Income Generating Deployment of NIBL	75
Table 4.10: Total Resources Deployment of NIBL	76
Table 4.11: Comparative Table Showing Budgeted and Actual Loan, Discounted, Overdraft of NIBL	79
Table 4.12: Summary of Budgeted LDO and Achievement	81
Table 4.13: Table Showing Movement in LDO of NIBL	83
Table 4.14: Status of Budgeted and Actual Deployment in Other Sector (NLDO)	84
Table 4.15: Summary of NLDO of NIBL	85
Table 4.16: Status of LDO VS Actual Deposit of NIBL	86
Table 4.17: Summary of Actual Deposit and Actual O/S LDO	88
Table 4.18: Status of Non-Fund Consuming Business Activities	89
Table 4.19: Movement of LC Business in NIBL	90
Table 4.20: Showing the Status of Bank Guarantee Business of NIBL	92
Table 4.21: Status of Expenditure of NIBL	94
Table 4.22: Status of Average Cost of Deposit	96
Table 4.23: Status of Non-Interest Expenses of NIBL	98
Table 4.24: Status of Loan Loss Provision of Total LDO of NIBL	99
Table 4.25: Status of Average Return of LDO	100

Table 4.26: Summary of Actual LDO and Interest Income	102
Table 4.27: Showing Income Other than Interest	105
Table 4.28: Movements in Interest Margin of NIBL	106
Table 4.29: Status of Burden of NIBL	108
Table 4.30: Showing the Status of Profit and Loss of NIBL	109
Table 4.31: Current Ratio of NIBL	112
Table 4.32: Debt-Equity Ratio of NIBL	114
Table 4.33: Calculation of Interest Coverage Ratio	116
Table 4.34: Showing the Activity Ratio of NIBL	117
Table 4.35: Profitability Ratio of NIBL	118
Table 4.36: BEP in Terms of Interest Margin	120
Table 4.37: Showing the Status of Margin of Safety of NIBL	121
Table 4.38: BEP in Terms of Volume of O/S LDO	122
Table 4.39 : Showing in BEP in Terms of Volume of Deposit	123

LIST OF TABLES

Figure 4.1: Status of Total Available Resource	66
Figure 4.2: Bar Diagram Showing Budgeted and Actual Deposit Collection	68
Figure 4.3: Scatter Diagram Showing Budgeted and Actual Deposit Collection	69
Figure 4.4: Scatter Diagram Showing Other Resources of NIBL	73
Figure 4.5: Pie Chart Showing Status of Deployment	77
Figure 4.6: Bar Diagram Showing the Status of Deployment	78
Figure 4.7: Bar Diagram Showing Budgeted and Actual LDO of NIBL80	
Figure 4.8: Scatter Diagram Showing Status of Budgeted and Actual LDO of NIBL	81
Figure 4.9: Status of Budgeted and Actual NLDO of NIBL	85
Figure 4.10: Scatter Diagram Showing Actual Deposit and Actual LDO of NIBL	87
Figure 4.11: Bar Diagram Showing Non Fund Consuming Activities of NIBL	89
Figure 4.13: Scatter Diagram Showing Bank Guarantee Business of NIBL	91
Figure 4.14: Pie Chart Showing Status of Total Expenses of NIBL	95
Figure 4.17: Bar Diagram Showing Interest Income and Total o/s LDO97	
Figure 4.18: Bar Diagram Showing Interest Margin of NIBL	107
Figure 4.19: Bar Diagram Showing the Burden of NIBL	108
Figure 4.20: Bar Diagram Showing the Net Profit and Loss of NIBL	110
Figure 4.21: Bar Diagram Showing Current Assets and Current Liabilities of NIBL	113
Figure 4.22: Bar diagram Showing Borrowings and Share Holder's Equity of NIBL	115
Figure 4.23: Bar Diagram Showing Margin of Safety of NIBL	121
Figure 4.24: Bar Diagram Showing Actual and BEP LDO of NIBL	122
Figure 4.26: Bar Diagram Showing Actual and BEP Deposit of NIBL	124

ABBREVIATION

AGM	:	Annual General Meeting
ATM	:	Automatic Tailor Machine
BIDC	:	Nepal Industrial Development Corporation
BOK	:	Bank of Kathmandu
CBS	:	Center Bureau of Statistics
COD	:	Cost of Deposit
CVP	:	Cost Volume Profit Analysis
EBL	:	Everest Bank Ltd.
GDP	:	Gross Domestic Product
GON's	:	Government of Nepal's
ICAN	:	Institute of Chartered Accountants of Nepal
LC	:	Litter of Credit
LDO	:	Loan Discount Overdraft
MOS	:	Margin of Safty
NaBL	:	Nepal Arab Bank Ltd.
NBB	:	Nepal Bangladesh Bank Ltd.
NIBL	:	Nepal Investment Bank Limited
NLDO	:	Non Loan Discount and Overdraft
NLSS	:	Nepal Living Standard Survey
NRB	:	Nepal Rastra Bank
NTL	:	National Trading Ltd.
O/D	:	Overdraft
PPC	:	Profit Planning and Control
PPT	:	Profit Planning Techniques
RBB	:	Rastriya Banijya Bank