CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Profit planning and control is viewed as a process designed to help management efficiently perform significant phase of the planning and control functions. The profit planning and control mode involves 1. Development and application of broad & long range objectives of the enterprise 2. Specification of enterprise goals. 3. Development of strategic long range profit plan in broad terms. 4. Specification of tactical short range profit plan detailed by assigned responsibilities. 5. Establishment of a system of periodic performance report detailed by assigned responsibilities and 6. Development of follow-up procedures.

Profit just does not happen, profit are managed. Profit is the primary measure of business in any economy. Before we go further the managerial process of profit planning, it is important to understand the concept of the profit. There is several definition of profit. An economist will defined that profit is reward for the entrepreneurship for the entrepreneurship for taking the risk. An accountant will say the excess of firm's profit over the expenditure of producing revenues given fiscal year.

Planning is the first essence of management and all other function are performed within the framework of planning means deciding in advance what is to be done in future. Planning starts from forecasting and predetermine of future events. The primary purpose of planning in business is to increase the chance of making profit. The budget is the primary operation planning document. Committed performance budgets are called profit plan. Each manager and subordinate

Has the authority in varying degrees to make the decisions, the result of which will nearly accomplish or better his budgetary targets.

The excess income over the expenditure is called profit. The word profit brings for visions of reserves. "Profit does not just happen, profits are managed" (Lynch and Williamson, 1989:125).

The concept of the profit is not the new but the concept of the profit planning and control is new word in business literature. It can be defined profit planning and control is a tool of management used in profit making organization. The managerial skill which increases the revenues and minimizes the cost is called profit planning and control. Profit planning and control involves long-term commitment waiting for a reward which comes in future and always remains uncertain. Therefore, every planning entails some degree of uncertainty. So, we can conclude profit planning and control is as an organized and formal approach for realize the planning, synchronization and control responsibilities of management which provides guidelines to the overall managerial task.

Sound-controlled profit planning and control programs facilitate the management to keep a level of profit which will make certain the continuation of the business and the accomplishment of organization responsibilities. "Profit planning through volume of cost analysis, however, is a modern concept of management planning tools designated primarily for industrial enterprises. It involves a study of what a business cost and expenses should be and will be at different level of operations and it include a study of the resultant effect due to this hanging relationship between volume and cost" (Young Dong, 2001:74)

"A Profit plan is an advance decision of expected achievement based on the most efficient operating standards in effect or in prospect of time. It is established against which actual accomplishment is regularly compared." (Neil, 2001:305)

Every business or institution is established on the definite goals and objectives. All the tasks are performed by company according to their objectives. Mainly two types of institutions are established one is profit oriented and another is service oriented. The financial institutions act as mediators by transferring the resources from the surplus to the deficits, which provides fuel to economic development of the country. Economic activates of a nation can't be carried forward without support of the financial institutions.

1.2 Nepalese economy -Current macro-economic Condition

Nepal is a landlocked country located between two giant countries India and china having good potential in the tourism Hydropower and other business sector. The total area of the country is 147,181 Sq. km. and only about 27 percentage of the total land area is under cultivation this country. Nepalese economy is fully depended on agriculture. So, it plays a vital role in the Nepalese economy. More than 78% people depend upon agricultural sector. Agriculture is the major instrument of progress, modernization and social change in Nepal. The share of manufacturing sector in the total GDP is 10 %. The government of Nepal has initiated liberal, open and market oriented economic policy since 1990s immediately after the restoration of the democracy. The deteriorating law and order situation, political instability in the country in the past few years has adversely affected the country's economy. Because of political unrest, Nepal has been acing very difficult situation. Economic activities including the development works were affected. Local level investment could not increase due to the absence of elected bodies and rural sector was adversely affected. Increasing number of youths continued to drain abroad in search of foreign employment. Under these circumstances, economic growth remained low compares to the target in the tenth plan. The growth in other sectors of the economy is embarrassed by the small domestic market, poor physical infrastructure, inadequate human and financial resources, and locked position of the country, the political instability and geography of the country.

1.3 Meaning & Importance of Financial Institution

Financial institution means an institution under the prevailing laws with the objectives of providing loans for agricultural cooperative, industrial or any other specific economic purpose or of collecting deposits from the general public and the word also includes as institution prescribed as financial institution by government of Nepal by publishing notice in the Nepal gazette. (NRB Act 2002).

Banking institution is inevitable for resource mobilization and all- round development of the country. It is resources for economic development of the country. It is resources for economic development; it maintains economic confidence segments and extends credit to people.

Financial institution can be considered as the catalyst to the economic growth of a country. In Nepal, there are several kinds of financial institutions such as commercial Banks, Development banks, rural development banks, finance companies, co-operatives involving in saving and credit activities etc. most of the financial institutions are under regulation of Nepal Rastra Bank (NRB), the central bank of Nepal.

Among all financial intermediaries commercial bank is the most leading one. "a bank is an organization whose major function is concerned with the collection of the provisionally idle money of general public for the use of advancing to other of disbursement. Banks nowadays do a large number of financial transactions while financial institutions are authorized to do limited transactions only." (Dahal & Dahal, 2002:7)

1.4 Major Financial Policy of Nepal

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

A) Monetary Policy

Nepal Rastra Bank began exercising monetary policy since mid 1960 with instrument like credit control regulation, interest rate administration, margin rate, refinance rate and cash reserve ratio. In the 1970s liquidity requirement, credit limits, and direct credit program were introduced. Open market operation evolved only in the 1990s with policy shift from direct to indirect monetary control. The basic objectives of monetary and credit policies have been fostering growth, generating employment, addressing poverty, containing prices, promoting the external trade and attaining healthy balance of payment of the country. The most important goals for monetary policy in Nepal are to maintain the price and external sector stability. Excess money supply causes an upward pressure in the level of prices by increasing aggregate demand in the economy in the wake of inelastic supply of output. So monetary policy purports to limit prices by disallowing money to increase in excess of desired demand for it. NRB has published its monetary policy for the fiscal year 2008/09. The few main features of new monetary policy are as follows:

- Primarily focused towards curbing acceleration in the pace of inflation.
- Economic growth at 6% on the basis of budget of 2008/09
- Average inflation based on consumer price index estimated to be 5.5% compared to that of 6.4% in 2007/08
- Maintaining financial sector stability and to increase the financial intermediation.

- Addressing the fluctuation in short term interest rates and the risks through open market operations.
- Maximum usage of the financial resources by the private sectors.

B) Banking Policy.

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

- Change in minimum capital requirement of the financial institution while starting the financial institutions.
- List of document to be presented for carrying out the financial transactions in Nepal.
- Minimum requirements of the directors & promoters.
- Probable conditions where NRB may reject the application for establishment of the financial institution.
- Provisions regarding the preliminary expenses.
- Formats of the application & commitments.

C) Credit policy

Nepal Rastra Bank has also been exercising monetary and credit policies through the same manner. But monetary & credit policies are not exactly the same. Monetary policy is defined as a policy affecting changes in the quantity of money while credit policy is defined as a policy affecting the cost, availability and the allocation of credit. In the past NRB has introduced the priority sector lending programmed. Under this programmed all the banks were required to extend certain percentage of their lending to the prescribed priority sector. However, this priority sector lending requirement is now phased out. With an objective of minimizing the concentration of the credit risk, the NRB has prescribed the single borrower limit for fund based as well as none funded based.

D) Interest Rate Policy

There exits a wide array of interest rate in the economy. This is either because of wider verities of securities having different liquidity, term structure and degree of risk or market imperfection. Interest rate is one of the monetary policy variables along with the money supply and credit. In the process of financial system liberalization, initiatives to deregulation interest rate structure in Nepal were taken since mid 1980s. The complete liberalization of the interest rate structure, however, took place in 1989 only where by the commercial banks were set free to determine the deposit and lending rates. However, the existing number of the commercial banks and the level of competitiveness in the financial market have not allowed interest rate structure to evolve through a perfect market mechanism. Further, there is a great deal difference in the level of interest rate on loans between formal and informal market. Informal market rate for borrowing are much higher than the formal market rates. One net worthy situations of the Nepalese financial system has been the poor sensitivity of the commercial banks to changes in bank rate by the NRB. This is because of the excess liquidity in the banking sector and therefore commercial banks do not resort to the central bank borrowing for financing their lending activities.

1.5 Evolution of Banking Industry

The evolution of banking industry had started a long time back, during ancient times. There was reference to the activities of money chargers in the temple of Jerusalem in the New Testament. In ancient Greece the famous temples of Delphi and Olympia served as the great depositories for peoples' surplus funds and these were the centers of money lending transaction. Indeed the traces of "rudimentary banking" were found in the Chaldean, Egyptian and Phoenician history. The development of banking in ancient Rome roughly followed the Greek pattern. Banking suffered oblivion after the fall of the Roman Empire after the death of emperor Justinian in 565 AD, and it was not until the revival of trade and commerce in the Middle Ages that the lessons of finance were learnt anew from the beginning. Money lending in the middle Ages was, however, largely confined to the Jews since the Christians were forbidden by the Canon law to indulge in the sinful act of lending money to other on interest. However, as the hold of the church loosened with the development of trade and commerce about the thirteenth century Christians also took to the lucrative business of money lending, thereby entering into keen competition with the Jews who had hitherto monopolized the business.

As a public enterprise, banking made its first beginning around the middle of the twenty century in Italy and the bank of Venice, founded n 1157 was the first the public banking institution. Following it were established the bank of Barcelona and the bank of Genoa in 1401 and 1407 respectively. The bank of Venice and Bank Genoa continued to operate until the eighteenth century. With the expansion of commercial activities in northern Europe there sprang up a number of private banking houses in Europe and slowly it spread throughout the world. In Nepal, modern banking starts from the establishment of Nepal Bank Limited.

1.6 Development of Banking Industry in Nepal

In the country, the development of Banking is relatively recent. The record of banking system in Nepal gives detail account of mixture of slow and steady evolution in the financial and global economy of Nepalese life. Involvement of landlords, rich merchants, shopkeepers and other individual moneylender has acted as fence to institutional credit in presence of unorganized money market.

Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient times. In Nepalese chronicle, it was recorded that the new era known as Nepal Sambat was introduced by Shakhadhar, a Sudra merchant of Kantipur in 879 or 880 A.D. after having paid all the outstanding debts in the country. This shows the basis of money lending practice in ancient Nepal. Towards the end of 8th century, Gunkam Dev had borrowed money to rebuild the Kathmandu valley. In 11th century during Malla regime there was an evidence of professional moneylenders and bankers. It is further believed that money-lending business, particularly for financing the foreign trade with Tibet, became quite popular during regime of Mallas. However, in the absence of any regulatory measures, the unscrupulous moneylenders were known to have charged exorbitant rates of interest and other extra dues on loan advanced.

The establishment of the "Tejarath Adda" during the year 1877 AD was fully subscribed by the government of Kathmandu valley, which played a vital role in the banking system. This establishment helped the general public to provide credit facilities at a very low rate of 5 percent. The "Tejarath Adda" distributed credit facilities to the public especially on the collateral of gold and silver. Several branches were opened in different part of the country. Hence the establishment of "Tejarath Adda" could be regarded as pioneer foundation of banking in Nepal. "Tejarath Adda" was running smoothly for flow decades.

The main defects of this institutions soughed as there was no other financial institution set-up and there was not effort to expand the services. Above all of the defects, this institution did not accept any deposits from the public. In the absence of saving mobilization the “Adda” faced financial problem making it impossible to carter to the credit and service need of the general population through out the country. After that again, for a long time, several unorganized bankers and indigenous moneylender continued to flourish as the sole provider of the credit and services to the general public.

As the same time, the government started trade with India and Tibet. And the various indigenous bankers handled even the trade, because transfer of the money could be safely made only through these bankers in this absence of modern banking institutions. Hence, the need of banking institution was realized. This was even strongly supported by the situation caused during 1934 AD’s earthquake where there was a need of finance for the reconstruction of works. Reviewing these situations, the “Udyog Parishad (Industry Development Board) was constituted in 1936 AD. One year after its formulation, it formulated the “company Act” and “Nepal Bank Act” in 1937 A.D.

1.7 Profile of Nepal SBI Bank Limited

1.7.1 Introduction

Nepal SBI Bank Ltd. (NSBL) is the first Indo-Nepal joint venture in the financial sector sponsored by three institutional promoters, namely State Bank of India, Employees Provident Fund and Agricultural Development Bank of Nepal through a Memorandum of Understanding signed on 17th July 1992. NSBL was incorporated as a public limited company at the Office of the Company Registrar on April 28, 1993 under Regn. No. 17-049/50 with an Authorized Capital of Rs.12 Crores and was licensed by Nepal Rastra Bank on July 6, 1993 under license No. NRB/l.Pa./7/2049/50. NSBL commenced operation with effect from July 7, 1993 with one full-fledged office at Durbar Marg, Kathmandu with 18 staff members. The staff strength has since increased to 511. Under the Banks & Financial Institutions Act, 2063, Nepal Rastra Bank granted fresh license to NSBL classifying it as an "A" class licensed institution on April 26, 2006 under license no. NRB/I.Pra.Ka.7/062/63. The Authorized, Issued and Paid-Up Capitals have been increased to Rs. 200 Crores, Rs. 186.93 Crores and Rs. 186.93 Crores, respectively.The management team and the

Managing Director who is also the CEO of the Bank are deputed by SBI. SBI also provides management support as per the Technical Services Agreement.

1.7.2 Share Capital of Nepal SBI Bank Ltd.

The bank was started with an authorized capital of Rs. 200 Crores & Issued Capital of Rs. 186.93 where as the Paid-Up capital of Rs 186.93 Crores. The share holding pattern of Nepal SBI Banks is as follows:

State Bank of India (SBI)	50%
Employees Provident Fund (EPF)	15%
Agriculture Development Bank (ADB/N)	5%
General Public	30%

1.7.3 Product & services of Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd. is providing full fledged Commercial Banking services to its clients. Besides accepting deposit in various forms, following facilities and services are made available by the Bank:

1. Home loan
2. Education loan
3. Mortgage loan
4. Mortgage plus loan
5. Doctor plus
6. Utility Bill payment
7. Swarmik bachat
8. Ujjwal Bhabishya bachat
9. Dhana viriddi bachat
10. Prepaid card.
11. Trust receipt loan.

1.7.4 Main objectives of Nepal SBI Bank Ltd.

The main objective of any commercial banks is to maximize the profit by mobilizing the resources that they have. The other objectives include:

1. To provide quality and reliable financial services to general public by safeguarding and promoting the interest of the depositors and shareholders of the Bank

2. To assist in bringing pace in development of country's industrial, commercial and agricultural sectors by mobilizing necessary financial resources from internal and external sources for the establishment, development, expansion and enhancement in capacity and productivity of agricultural, industrial, service, trade and other productive enterprises viable from business point of view.
3. To establish, operate, develop, expand and promote productive and employment generating enterprises in rural and urban sectors by properly mobilizing available skill, labor and capital, and to assist by actively participating for the alleviation of poverty by providing necessary financial resources, technical and managerial consultancy services, training and technology for the purpose.
4. To provide financial intermediary services through institutional investments and healthy competition by mobilizing capital scattered in the country.

1.7.5 Branches of Nepal SBI Bank

Nepal SBI Bank Ltd has the largest local network in the country Nepal and India. The head office of the bank is located at Hattisar, Kathmandu. The Bank at present has 20 branches in Kathmandu Valley and 29 branches out side valley.

1.7.6 Corporate Social Responsibility (CSR) of Nepal SBI Bank

1. Nepal SBI Bank, Palpa Branch provided carpet to Shree Chandeswori Primary School (SCPS) located at Nayar Namtalesh V.D.C.-6, Nayar Chaupari Palpa amidst a function organized on 13th July 2011 at the School. The carpet will be used to cover floor of four rooms in the school. Around 50 students are studying in the school.
2. Nepal SBI Bank partially sponsored the weeklong Olympic Day Peace Rally 2011, organized by Nepal Olympic Committee from 17th to 23rd June 2011 in Bhairahawa, Butawal, Lumbini.
3. 5th July, 2011, Nepal SBI Bank, Bouddha Branch provided materials required for candle making to "M/s Yuva Apang Sangathan, Nepal".The materials will be used to conduct training programmes by the organization.
4. 3rd June, 2011,Nepal SBI Bank, Waling Branch provided various books on literature, general knowledge, biography, English language etc. to "Rosebud Reading Corner Library" run by Rose Bud Youth Circle located at Khilung Deurali V.D.C. -3, Syangja.

5. 8th April, 2011, Nepal SBI Bank, Maharajgunj Branch recently provided daily provisions of food and other cereals to residents of Divine Service Home (Divya Sewa Niketan),Golphutar. The service home located at Mahankal VDC, Ward No.-5, Golphutar is providing shelter to 15 elderly women from various age groups.
6. 9th April, 2011, Nepal SBI Bank, Palpa Branch recently organized Health awareness program in collaboration with Nepal Nursing Association, Palpa to women of Birkot V.D.C. of Palpa.

1.8 Statement of the Problem

Profit planning and control (PPC) model provides a tool for more effective supervision of individual operation and practical administration of a business a whole. In our country the industrialization is still in its early stages therefore, the concept of profit planning has not even familiar in the most of the business concerns including commercials banks. By proper planning a business can be manage more effectively and efficiently. Basically in commercial banks, its major activities would be mobilization of resources involving cost, profitable deployment of those resources and generating income. The differential interest income over the interest cost. Which is popularly called interest margin can be considered as the contribution margin in the profit of the bank. The other operational expenses from a burden to contribution margin which the banks are attempting to compensate by other income generate out of non fund based business activities of the bank. This study has tired to analyze and examine the PPC side of commercial bank taking a case study of Nepal SBI Banks. Further more the study has tried to answer the following research questions.

- What are the overall profit planning problems of Nepal SBI Banks?
- Does Nepal SBI Bank have appropriate profit planning system?
- Dos the bank mobilize the deposit & other resources optimally?
- What is the gap between budgeted & Actual performance?
- What are the overall PPC problems of Nepal SBI bank & what suggestion can be recommended for their proper solutions?

1.9 Objectives of the study

This study is mainly concerned which budgeting system Nepal SBI Bank Ltd. The fundamental objectives of this study are to asses budgeting system of Nepal SBI Bank Ltd. Apart from this following are the other objectives of the study.

- To focus the current profit planning adopted and its effectiveness of Nepal SBI Bank Ltd.
- To study the variance of budgeted and actual achievements.
- To examine the resource mobilization planning of Nepal SBI Bank.
- To study the deployment for income generating activities.
- To provide suggestion and recommendations for improvements of the overall profitability of the bank.
- To overall Nepal SBI Banks profit planning on the basic of overall managerial Budgets development by the Bank.

1.10 Significance of Study

The research study is connected with the profit planning in commercial banks with the study of Nepal SBI banks Ltd. which the major objectives of examining the proper applicability of profit planning system in the bank profit planning process significantly contributes to improve the profitability as well as the overall financial performance of an organization by the best utilization of resources. Profit planning is the heart of management. It may also helpful for future researcher as a reference material. Profit planning is the most useful technique for the analysis the profitability and its performance. Hence this study provides the guideline for the technique of profit planning and this study provides as a proper knowledge and experiences for the data collection, preparation and analysis. The significations of the study are given below:

- This study gives overall background of Nepal SBI banks Ltd.
- It highlights the applicable tools of budgeting for proper planning of profit.
- This study would be helpful to those who seek information of profit planning of Nepal SBI Bank.

1.11 Limitation of the Study

- The study is made for partial fulfillment of the requirement of masters in Business Studies (MBS) in a short duration of time.

- The study is limited to the profit planning aspect of the Bank, leaving other areas uncovered.
- The data and information over the period of five fiscal years commencing from FY 2062/063 to FY 2066/067 is used in the study.
- Balance Sheet, profit & loss accounts, and other financial statement are considered basic source of data. Thus, the study will be mainly based on secondary data collected from various sources.
- This study is analysis with the help of financial tools and few statistical tools
- For the literature review, various newspapers, journals, unpublished thesis works, and internet will be referred. However the literature review will be limited to very few articles and research works due to unavailability of sufficient materials and adequate time.

1.12 Organization of the Study

The structure of the thesis report will comprise of five chapters which have been briefly described as follows:

Chapter – I: Introduction

Introduction section provides an overall description of the study to be carried out. This chapter includes background of the study, Nepalese Economy- the current picture. Meaning & important of financial institution, major financial policy of Nepal, Evolution of the banking industry, Development of banking industry in Nepal, Commercial bank, profile of Nepal SBI Bank Ltd., Objectives of the study, Significance of the study, Limitation of the study.

Chapter – II: Conceptual Frame Work and Review of Literature

This chapter describes theoretical analysis and brief review of related and pertinent literature available; it includes conceptual review of commercial banks & review of empirical work. For this purpose, various books, journals & periodicals as well as internet shall be used.

Chapter – III: Research Methodology

This chapter describes the research methodology enjoyed in the study. It includes Research design, Sample selection, and sources of data, Data collection procedure & tools for analysis of the study.

Chapter – IV: Presentation & Analysis of Data

This chapter is one of the main chapters of this study. This chapter illustrates the collected data into a systematic format such as graphs. It discussed the analysis of the data as well as interpretation of data..

Chapter – V: Summary, Conclusion & Recommendations

This chapter comprises the summary of entire thesis. It describes major finding of the thesis and provides some suggestions & recommendations based on the analysis of study.

A bibliography and appendices will be attached at the end of the study.

CHAPTER – II

CONCEPTUAL FRAME WORK AND REVIEW OF LITERATURE

2.1 Introduction

The term review of literature is very important for the researcher or investigator in the area of concerned problem. This is related to the present study with a view to find out what had already been explained and how the present research adds new dimension to the study. It is an integral and mandatory process in research work. In this part, focus has been made on the conceptual framework and the review of literature that is relevant regarding to the profit planning concepts. In this regard, various books, journals and articles concerned to this topic have been reviewed. Review of literature is based on available literature in the field of research. Every possible effort has been made to grasp knowledge and information that is available from libraries; document collection center helps to take adequate feed back to broaden the information to study.

2.2 Concept of Commercial Bank

The term 'Bank' signifies the place where we keep our money for safe keeping as well as for earning some interest or the place from where we borrow money as loan. As regard to the borrowing money from the Bank, we may cinder its function as that of money lender in our society. But a bank a moneylender is different in the sense that the former lends the money which is principally collected from their depositors while later does so from its own resources. "The Random House Dictionary of the English Language defines the bank as an institution for receiving money and is some cases. Issuing notes and transiting other financial business." (Stein and Urdang,1985:29). Banking is a business much like any other business. The commercial bank is relatively business concern. A bank provides certain service for its customers (depositors and borrowers) and in return receives payments in one form of other. It tries to earn profit for its stock owners. The definitions of bank as given by various individuals are as follows: "bank is an establishment for the custody of money received from or on behalf of its customers its essential duty is to pay their draft on its profit arises from its se of the money left unemployed by them." (Oxford English dictionary)

"Commercial bank refers to such type of bank which deals in money exchange accepting deposits, advancing loans and commercial transaction except specific banking related to cooperatives and industry and other objectives." (Nepal commercial bank Act. 2031)

The same Act has provided for the modalities of establishing a commercial bank, as per which a commercial bank can be established under the company Act as a limited liability company only with the recommendations of Nepal Rastra Bank. From the various definition made and opinion produced regarding commercial banking it can be concluded that a commercial bank is set up to collect –scattered funds and employ them to productive sector of economic.

2.3 NRB Regulation

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

- ❖ To product and promote the depositors rights by increasing attitude of published towards the bank and financial institution.
- ❖ To provide qualitative services by the means of healthy competition among the banks.
- ❖ To provide guides lines about establishment, operation, management, rules, regulations and legal provisions.

2.3.1. Prescribed Regulations for Commercial Banks

(a) Capital Adequacy

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

(b) Loans loss Reserves

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

(c) Reserve Requirements

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

(d) Reporting Requirements

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

(e) System and Policy Documents

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

(f) Technology and technical Service

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

2.4 Activities of Commercial Bank

The major activities of commercial banks are essentially accepting deposits and making loans and advances. In the present scenario banking activities are not limited only accepting deposits and lending loan and advance, others income generating activities has been added as in time span like remittance services, land development and housing projects, locker facilities, debit and credit cards, bank guarantee, bill payments services etc. the major activities of a commercial bank been divided in to two parts are as follows:

1. Collection of Resources
2. Deployment or mobilization of Resources

2.4.1 Collection of Resources

Through intermediary channels such as financial institutions and financial markets, funds should be efficiently channeled from depositors and investors to borrowers in need of funding to, for example, expand their business or buy a house. The role played by financial institutions and financial markets in this process is referred to as the activities of commercial banks. Resources in commercial banks collected from two sources internal and external internal means owners fund and external means borrowed fund.

(a) Internal Fund or Capital Fund

Internal fund of the bank is capital fund, which consists paid up capital, reserves, retained earnings, premiums, preference share, reserves and provisions. A commercial bank must have paid up capital of RS.200 crore in order to establish as a national level commercial bank. NRB has also prescribed the capital adequacy norms to be of at least 11%.

Likewise the commercial banking act 2031 has made a mandatory provision for every commercial bank to build the general reserve out of the allocation of at least 20% of net profit amount each year until the amount becomes double the paid up capita. The external fund of a bank constitutes the resources apart from the owners' fund. In a bank, it is mostly contributed by customer's deposit, and some parts by the short- term fund borrowed from other banks called inter bank loan or central banks.

(b) Deposits & Others Liabilities

Deposits are collected from their customers in various types of savings. Customer's deposit is a major source of bank's resources. It is very important for a bank for its liquidity supply that banks are often engaged. In competition for deposit mobilization because the capacity of a bank to grant credit to its borrowers depends upon its capacity to mobilize deposits. There are various types of deposits like, call deposit, saving deposit, fixed deposit, current deposit etc. all of above are on demand deposit where as fixed is time base deposit. As per commercial banking act of Nepal, a current account is the bank account having money, which is subject to repayable whenever demanded. Likewise fixed deposit is time based deposit which is withdrawn only after the expiry of the time period. Banks offer interest on these accounts varying the duration of deposit maturation. The saving deposits are accepted on saving accounts which are defined by commercial banking act 2031 as "the bank account having money which is deposited for the purpose of saving" (Commercial Bank Act 2031).

Resources except customer's deposit and capital fund are called other liabilities of the bank. It consists of short term borrowed fund from other banks and central bank. This types of resources are called inter bank borrowings which are normally obtained for a very short period and those are meant for meeting temporary liquidity position of the bank. This borrowing rate is directed by the Central bank if Nepal. In other resources also include, payables in the account of the banks.

2.4.2 Deployment of Resources

Deployment of resources of the bank means utilization of the banks fund in such a way that it ensures liquidity as well as gives some earning for meeting its operating expenses and optimum return on the shareholder's investment. Thus it is setting up of the best possible assets portfolio which meets above requirement in the best way. In fact the efficiency of a banker is reflected by this activity. Every bank strives to maximum its earning by employing its surplus cash by lending it to the prudent borrowers in a manner which in no way impairs its capacity to pay on demand the acquitted fund to their owners. Thus for banker, deployment of the available resources is a challenging job, because the liquidity and profitability are the opposing consideration to each other.

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

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

A) Resources for liability

Liability means portfolio of such assets which are convertible in to cash with in very short period of time. As major portion of a bank's resources comprise customer deposit which are subject to repayable on demand. So banks maintain the sufficient amount of liquid asset in the form of cash in their vault balance at their account of Central Bank and interbank. A major portion of a bank's resources constitute customer deposit which are subject to repayable on demand or after some time as the case may be, a banker cannot offered to neglect his cash position so as to be always capable to meet withdrawal of the deposit. Therefore bank keeps adequate amount of liquid asset in the form of cash in their vault and balance at their account in central bank (NRB). As said earlier, maintenance of excess liquid assets that required is detrimental to the profitability objectives of the bank as the idle cash gives no return rather it involves the cost of carrying (insurance cost, guarantee cost etc.).

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

(I) Balance to be maintained at NRB Account. At least 7% of current and saving deposits amount and 4.5% of fixed deposit amount but, in new monetary policy in 2011 every bank should maintained 5.5% of their total deposit in NRB account which is weekly basis.

(II) Balance to be kept in bank's vault. A least 3% of total deposit liability (NRB circular 2001/2002). (Nepal Rastra Bank, 2001).

B) Investment in securities

Investment includes the fund invested for buying government and other stock exchange security, treasury bills, fund placement at call account with other bank etc. such investments can easily be liquidated if required thus they also called liquid assets. Therefore, it is in second line in terms of liquidity from cash and balance at NRB.

C) **Loans, Overdrafts and Discounts (LDO)**

Granting the loan and advance is a major function of bank. Overall profitability of book depends on interest margin. In fact the deposits are accepted for loan and advance. Loan and advances dominate the asset side of the balance sheet of any bank. The income statement of bank occupy by interest. Hence, loan is known as risky assets. Risk of non repayment of loan is known as credit risk. Commercial banks generally lend for short term commercial purpose to finance the need and commerce. As the fund available for lending with the banks, are mostly the fund mobilized from the depositors, a commercial bank should carefully consider the safety margin before granting the loan.

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

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

Generally, banks make their advanced in the forms of loans, overdrafts, cash credit and bills discounting. In a loan discount the entire amount is disbursed to the borrower, which is repayable in installment or in lump sum and expiry of loans. Interest is charged on the entire disbursed to the borrower. The types of loan may be pledge loan, demand loan. Hire purchase, import finance (transit loans), export Finance (packing credit), loan against shares etc.

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

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

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

2.5 Role of Commercial Banks in the Development of the Economy

Commercial Banks play an important role in directing the affairs of the economy in various ways. The operation commercial Banks record the economy their transactions reflect the economy helping in the country. Commercial banks have played a vital role in giving that direction in economy growth over the time by financing the requirements of industries and trade in the country. By encouraging think among the people, banks have fostered the process of capital formation in the country. In contest of deposits thus help bringing the scattered resource in to the organized banking sector which can be allocated to the different economic activities. In this way they help in country's capital assets formation of income out of which further saving by the community and further growth potential emerges for the good of the economy. In a planned economy, banks make the entire planned productive process possible by providing funds to the public sector, joint sector or private sector for any type of organization. All type of organization. All employment, income distribution and other objectives of the plan as far as possible subsumed into production plan which banks finance.

Commercial banks has succeeded in becoming a heart of financial system as they hold deposits of government agencies, business firms, millions of people of the nation and make them available through their lending and investing activities to other government agencies, business firms, millions of people of the nation. Like many other developing countries including Nepal lack capital formation and proper mobilization of funds. This also stands the major problem in the economic development of a nation. Commercial banks grant long-term loans to industries, which result in the increase in the productivity capacity of an industry. The loans given to agriculture sectors enhance the agriculture production. Similarly the loans advanced to different people and corporate bodies help the increase their incomes and profits.

So, finally we can conclude that the future of the country is greatly determined by the active role played by the commercial banks. Similarly in the context of Nepal too, different commercial banks such as Rastriya Banijya Bank are supporting in the economic development of the country.

2.6 Profit Planning as a Concept

Profit planning and control is also called comprehensive budgeting, managerial budgeting and budgeting only. The word profit planning and control has recently introduced in the business literature. Most of profit oriented business concerns use profit planning and control as a managerial tools. "A profit planning & control program can be one of the more effective communication networks in an enterprise. Communication for effective planning and control requires that both the executive and the subordinate have the same understanding of responsibilities ensure a degree of understanding not otherwise possible. Full and open reporting in performing reports that, focus on assigned responsibilities likewise enhance the degree of communication essential to sound management" (Welsch, Hilton & Gordon, 2001: 215).

"Profit planning is a predetermined detailed plan of action developed and distributed as guide to current operations and as a partial basis for the subsequent evaluation of performance. Thus is can say that profit planning is a tool which may be used by the management in planning the future course of actions and controlling the actual performance"(Gupta, 1992:3).

Profit planning is a comprehensive and co-ordinate plan expressed in financial terms for the operations and resource of an enterprise for some specific period in the future.

Profit plan as an exact and rigorous analysis of the past and the probable and desired future experience with a view to substituting considered intention for opportunism in management the establishment of a system of periodic performance report detailed by assigned responsibility and fallow up procedures (International Management Institution Geneva Conference 1980).

The role of profit planning and control is very important in profit oriented enterprises. Roles of PPC are as follow:

- ❖ To provide definite goals and objectives that serve as benchmarks for evaluation performance of business.
- ❖ To provide information to management timely.
- ❖ To point out efficiency and inefficiency.
- ❖ To reduce cost and mark profit more.

- To provide a valuable means of controlling income and expenditure of a business, as it is a 'Plan for spending'.
- It reflect the weakness in the organization vary promptly.
- To fix responsibility center for manager.
- It provides a tool through which managerial polices and goals are periodically evaluated tested and established as guidelines for the entire organization.

"Profit plan is estimation and predetermine of revenues and expenses that estimated how much income will be generated and how it should be spent in order to meet investment and profit requirement. In the case of institutional operation it presents a plan for spending income in a manner that does not result in a loss.' (Ninemeir and Schmidgall, 1984:125)

Profit plan stand for an overall plan of accomplishment, covers exact period of time and prepares the planning decision of the management. It can be viewed as one of the major important approaches that have been developed to make easy successful presentation of the organization procedure. Now a day's profit planning system is mainly common to business organization but the viability of it depends upon the size of the business. The common objectives of profit planning system whether applied to business administration are to make policy as well as with the execution of policy. And a purpose established after the deliberation of the feasible courses of events in the future. In conclusion profit planning is directed towards the final objectives of the enterprises and generally includes all of its important elements. It has main objectives of achieving the most favorable profit in the enterprises.

2.7 Components of Profit Planning and Control

2.7.1 Meaning and Concepts of profit

Profit is a basic element of profit planning and control. There is no meaning of profit planning and control without profit. Every profit oriented business concerns involves to profit generating activities. "Oxford dictionary defines profit as financial gain or amount of money gained in business especially the difference between the amounts earned and the amount spent." Likewise, advantage or benefits gained from something is called profit. (Hornby & Cowie, 1992:63)

The successes and failure of business entity measure by profit earned by them in certain period of time. The major concern of stock holder is profit so organization always wants to maximization of profit. Performance of management of organization is measured by profit and loss. Survivability and sustainability of enterprises depends on profit.

2.7.2 Meaning and Concept of planning & Control

Planning is the basic element of profit planning is going according to plan the primary purpose of planning are to reduce uncertainty about future profit, to incorporate management judgment and decision in to the planning process, to provide necessary information for developing other elements of comprehensive profit plan and to facilitate management control of sales activities. “Operational planning is often referred to as short term budgeting and looks at resources, production etc for a financial period, usually a year. It provides a detailed plan of what the organization hopes will be achieved within the next financial year. Strategic planning often referred to as the long term plan and looks at where the organization is heading over a number of years, for example of five year plan would be a long term plan it present the organization with an idea of the broad direction that it hopes to be heading. The operational plan translating the strategic plan in to achievable short term goals.” (Lynch 2003:158)

“Planning is the process of developing enterprises objective and selection a future courses of action to accomplish them. It includes developing premises about the environment in which they are to be accomplished”. (Welsch, Hilton & Gordon, 2001:45).

“Arrangement for doing or using something considered or worked out in advance is planning. “Planning is the feed forwards process to reduce uncertainty about the future. The planning process is based on the conviction that management can plan its activities and condition the state of the enterprises that determine its destiny”. (Pandey, 1991:325).

Planning is quantified assessment of future condition about a particular subject based on one or more explicit assumption. The management of organization make plan and it may accept, modify or reject. Planning is the intellectual mental process. It is goal oriented primary function of management.

"The major component of profit planning and control is controlling. The dictionary meaning of control is having a power to regulate something standard of comparison for checking the results of the experiment". (Hornby 1992:84)

Control is the process that measure current performance and guides it toward some pre determined goals control is the process of checking to determine whether or not plans are being adhered to whether or not proper progress is being made towards objectives and goals and acting if necessary to correct deviations. Controlling can be defined as a process of measuring and evaluating actual performance of each organizational component of an enterprise and initiating corrective action when necessary to ensure efficient accomplishment of enterprise objectives, goals, policies and standards. Planning establishes the objectives, goals, policies and standards of an enterprises control is exercised by using personal evaluation periodic performances, reports and special reports. Comparison with standard and actual is called controlling. Controlling is a one of the important aspect of management function.

2.7.3 Long Term and Short Term Profit Planning

Strategic profit plan and tactical sales plan is known as long term short term profit planning. Strategic sales plan is prepared for 5 to 10 years. It is wide and universal in nature and developed by year and amount. The strategic profit plan is broad and it usually encompasses five or more years in the future. The tactical profit plan is detailed and encompasses one year time horizon the upcoming year. "The development of strategic and tactical profit plans, each year is a process that involves managerial decisions and ideally a high level of management participation." (Welsch, Hilton & Gordon, 2006:173). While preparing the strategic profit plan state of economy, political stability, population study etc kept in consideration. Likewise, tactical profit plan is prepared for short period of time. By the time it is prepare for a month, quarter, half year and a year.

Long term profit planning is closely concerns with the concept of the organization as a long live institution. It is most important for aboard and long living enterprises. Strategic planning is one of the most difficult times span involved in planning as many problems in short range planning can be traced to the absence of a clear sense of direction and the practices which a comprehensive long range plan provides. The short term planning is limited time dimensions usually it covers one years time period.

Short-term planning is used by management as a substantial part of the long-range plan.

2.7.4 Corporate Planning

Corporate planning means the systematic process of setting corporate objectives and making strategic decisions and developing the plans necessary to achieve these objectives. Corporate planning is one of the parts of profit plan. It was first started in the USA in 1950 and it is however being used in one form in another in many companies there. Long term planning is included in corporate planning. Corporate planning often is considered synonymous with long term planning. The main objectives of corporate planning are as follows:

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

2.7.5 Forecasting

The forecasting is to take future decision at present form, by the analysis of relevant faucets of past and present. Forecasting is not only imagination or guess matter it is related with certain assumption. Its main aim is to reduce uncertainty and risk in future and attain conformity to achieve desired goals or objectives as far as possible. It should be realized that budgeting is not merely forecasting although, forecasting is the form of budgeting. Forecasting is estimate of the future environment with in which the company will operate. Budgeting or planning on the other hand involves the determination of what should be done, how the goals may be reached and what individual units are to be assumed responsible and be held accountable. Budget provides orderly way to attain goals and also provides a time schedule for future action to produce measure result. When an estimate of future conditions is made on the systematic basis the process is referred to as forecasting. Its aim is not reduce the areas of uncertainty that management decision making with respect to cost and capital investment.

2.7.6 Planning Verses Forecasting

Planning is clearly district from forecasting, Forecasting one of the essential elements of planning is a prediction of what will happen on the basis of certain assumption planning is an attempt to determine what should happen and what will make it likely to happen. A forecast is not a plan, rather it is a statement of and or qualified assessment of future condition about a particular subject (sales revenue) based on one of mere explicit assumption. A forecast should be viewed as only one input into the development of a sales plan. "The management of a company may accept modify or reject the forecast, in contrast a sales plan incorporates management decision that are based on the forecast, other inputs and management judgment about such related items based on the forecast, other inputs and management judgment about related items as sales volume, price, production and sales, effort and financing."(Welsch, 2001:109)

2.8 Budgeting and Budget

Budgeting is a forward planning and involves the preparation in advance of the quantitative as well as financial statement to indicate the intention of the management in respect of the various aspects of the business. A budget is a comprehensive and co-coordinated plan expressed in financial term for the operation and source of an enterprise for some specific period in the future.

As regards to the 'Budget' it can be visualized as the end result of the budgeting. If Budgeting is the procedure for preparing plan in respect of future financial requirements, the plan when presented in written from is called budget. Budgeting in facts is a managerial technique and a business budget is such a written plan in which all aspects of business operation with respect to a definite future period are included. It is a formal statement of policy, plan objectives and goals established by the top level management in respect of some future period.

A budget is a forest, in detail of the result of an officially recognized programmed of operating efficiency. Budget is defined as a comprehensive and co-ordinates plan expressed in financial terms for the operations and resources of an enterprises for some specified period in the future. According to his definition the essential elements of budget are:

- Plan
- Operations and Resources

- ❖ Financial Terms
- ❖ Specified future period
- ❖ Comprehensiveness
- ❖ Co-operation

Therefore, we can say that budget is a tool, which may be used by the management in planning the future course of action and in controlling the actual performance.

2.8.1 Budgeting: As a Device of Profit Planning

Budgeting is a forward planning. It serves basically as a device (tool) for management, control; it is rather pivot of any effective scheme of control. G.A. Walsh in his book "Budgeting PPC" has rightly printed out that budgeting is the principal tool of planning and control offered to management by accounting functions.

John G. Glover and Coleman L. Maza have expressed a similar a view, in their opinion the prime objective of budgeting is to assist in systematic planning and in controlling the operations of the enterprises. In fact budgeting is best sources of communication and an important tool in the hands of management. Since, budgeting deals with fundamental policies and objective it is prepared by top management. A formal budget by itself will not ensure that a firm's operations will be automatically geared to the achievement of the goals set in the budget. For this to happen, the top-level managers and lower level employees have to understand the goals and support them and co-ordinate their efforts to attain them. Budgeting is a device of a planning and controls that serve as a guide to conduct operation and a bank's for evaluating actual results. Actual results can be judged being satisfactory or unsatisfactory in the light of the relevant budget data also in the light of changes in conditions. Company controls operating through its budgeting and responsibility reporting system. Top executives are able to control every area of the organization through a system of budgetary and control reporting by responsibility area. Budgets are an important tool of profit planning. The main objectives of budgeting are:

- ❖ Explicit statement of expectations.
- ❖ Communication
- ❖ Co-ordination
- ❖ Expectation as a framework for judging performance.

2.8.2 Essentials of an Effective Budgeting

An effective budgeting system should have some essential feature to ensure best results. The following are the chief characteristics of an effective budgeting:

a) Sound Forecasting

Forecasts are the foundations of budgets are discussed by the executives and when most profitable combination of forecasts are selected they becomes budgets. The sounder are the forecasts better result would come out of the budgeting system.

b) An Adequate and planned Accounting System

There should be proper glow of accurate and timely information in the enterprises which is, must for the preparation of budgets. This can be ensured only by having an adequate and planned accounting system in the firm.

c) Efficient Organization with definite Lines of Responsibility.

An efficient adequate and best organization is imperative for budget preparation and its operation. Thus a budgeting system should always be supported by a sound organization structure demarcation clearly the lines of Authority and responsibility. Not only this, There should be a true delegation of authority from top to low levels of management. This will provide adequate opportunity to all executives to make decisions and also to participate in the function of budget preparation. Thus, an efficient organization helps not only in budget co-ordination but it also plays important role in budget co-ordination and operation.

d) Formation of budget committee

As mentioned earlier, budget committee receives the forecast and targets of each department as well as periodic reports and finalizes. And also approves the department budgets. Thus in order to make a budgeting system more and more effective, a budget committee should always be set up.

e) Clearly defined Business Policies:

Every budget reflects the business polices formulated by the top management. In other words budgets should always prepare talking in to account the policies set for particular department or functions. But for this purpose, policies should be precise and clearly designed as well as free from any ambiguity.

f) Availability of Statistical Information

Since budgets are always prepared and expressed in quantitative terms. It is necessary that sufficient and relevant that should be made available to each department. Such data may not be available from accounting system alone and therefore they may be processed through statistical technique. These data should be as far as possible, reliable accurate and adequate.

g) Support of top management

If a budget program is to be successful, the sympathy of each member of the management team, it should start preferably from top level (chairman). The enthusiasm for budget operation as well as direction for it should initiate and come from top.

h) Good Reporting System

An effective budgeting system also requires the presence of a proper feedback system. As work proceeds in the budget period, actual performance should not only be recorded but it should also be compared with budgets performance. The variations should be reported promptly and clearly to the appropriate levels of management

i) Motivational Approach

All the employee or staff other than executives should be strongly a properly motivate towards budgeting system, in an organization it is needed to make each staff member feel to much involved in the budgeting system. To meet this end motivational approach towards budgeting should be followed.

2.9 Fundamental Concept of Profit Planning

The concept of budgeting was originally established with function of an accountant. But in the modern day budgeting is given much more important and is regarded as a way of management and in more important sense is regarded as basic technique of decision making and is given the name ‘profit planning and control program’. The basic concepts of PPC include the various activities that should be followed to attain maximum usefulness form profit planning and control. These are mentioned below:

a. Managerial Involvement and Commitment

Managerial involvement entails managerial support, confidence participation and performance orientation. Top level of management should understand the nature and characteristics of PPC, Be convinced that particular approach to manage is preferable for their situation support the program in all its planning process as performance commitments.

b. Responsibility Accounting

A sound profit planning and control system must consist of responsibility accounting. Within the primary accounting structure secondary classification of costs, revenues, and other financial data that are relevant may be utilized in accordance with the needs of the enterprise.

c. Organizational Adaptation

A successful PPC program must test on sound organizational structure, for the enterprises and clear cut designation of lines of authorities and responsibilities of all the department of enterprises. The purpose of organizational structure and the assignment of authority is to establish a framework within which enterprise objectives may be attained in a coordinate and effective way on a continuing basis. The manager of each subunit would be assigned specific authority and responsibility for the operational activities of that subunit. These subunits are often referred to as decision centers or responsibility control responsibility is further\classified by cost center, profit center, investment center.

d. Full Communication

Communication is transferring information from one to another Communication can be defined as interchange of thought or information to bring about a mutual understanding between two or more parties. For profit planning and control, effective communication means development of well defined objective, specification of goals, development of profit plan and reporting and follows up activities related to performance evaluation for each responsibility center.

e. Flexible Application

This stress that a PPC program must not dominate the business and the flexibility in applying the plan must be forthright management policy. So the strait Jackets are not imposed and all favorable opportunities are seized even though they are not covered by the budget rigidity in practicability will be the harmful boundary in an association in an occasion of the enterprise. So, such boundary should be avoided which mean there should be flexibility in PPC so that the unseen golden opportunity should be grasped in future for the betterment of the organization.

f. Realistic Expectation

Profit Planning and control must be based on realistic approach or estimation. Management must be realistic assumption and must not take either irrational optimism or unnecessary conservation so for PPC purpose a realistic approach reared with time dimension and external and internal environment that will prevail during the time span should be considered. This is called realistic expectation.

g. Timeless

Time is going on it can't be stop whether an individual or organization busy or idle. The problem of the manager in one hand is to accomplish the planned activities in a given time and on the other hand is to prepare the plan itself. Phasing of the planning is of two types one is timing planning horizons and another is timing of planning activities.

h. Individual and Group Recognition

Behavioral aspects of human being are for the field of the study of the psychologist, educators and businessman, and finding was that there can be so many unknown misconception and speculations which has to be considered for an efficient management. A good and dynamic leadership can resolve this problem by integrating all the group efforts for betterment of the organization the fact also has been well considered under profit planning and control approach and focuses have been given to resolve the behavioral problems.

i. Zero-Based Budgeting

The budgeting which is always starting from Zero is called zero base budgeting. "Begin with where you are establishing a business as usual budget for next year the same way and the same things you would do if you weren't concerned about constraint a total justification". (Welsch, Hilton & Gordon 2006:43)

j. Follow Up

The important of follow up action on profit planning and control approach is more. A careful study's needed to correct the action of substandard performance in a constructive manner, to recognize and transfer the knowledge of outstanding performance to others and based on the study and evaluation to provide a sound basis for future profit planning and control program.

2.10 Profit Planning and Control Process

A PPC program includes more than the traditional idea of a periodic or master budget rather it encompasses the application of a number of related management concept through a variety of approaches techniques and sequential steps. These steps are out lined in this study in the following manner:

a. Identification and evaluation of external variable.
b. Development of the broad objectives of the enterprise.
c. Development of specific goals for the enterprise.
d. Development and evaluation of company strangely.
e. Executive management planning instruction.
f. Preparation and evaluation of project plans.
g. Development of strategies and tactical profit plan.
h. Implementation of profit plans.
i. Use of periodic performance reports.
j. Follow up.

2.11 Merits and Demerits of Profit Planning and Control

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

a. Profit planning and control bring organizational policy in to action.
b. Organizational structure will be sound and effective by the means of PPC.
c. Historical statistical and accounting data is used by PPC.
d. It compels management to plan for the most economical use of labor material a capital.
e. Efficiency and inefficiency can be measured by PPC.
f. Management attention can be drawn by PPC for the general business condition.
g. It reduced cost by increasing the span of control because fewer supervisors are needed.
h. PPC created understanding between management and their co-workers.
i. PPC reduce the uncertainty and gives guidelines to achieve organizational goal.

j. It provides to all level of management the habit of timely, careful, and adequate consideration of the relevant factors before receiving important decisions.

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

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

2.12 Basic Assumptions and Limitations of Profit Plan

Profit planning systems are more common in business organization and non business organization. But there are so many assumption of using profit planning process. Firstly, the basic plans of the business must be measured in term of money, if there is to be any assurance that money will be available for the business must for the needs of the business. Secondly, it is possible to plan for the future of a business in a comprehensive way, coordinating every aspects of the business with every other aspect to establish optimum profit goals. Thirdly, profit planning is preplanning not merely what to do if thing workout as forecasted, but also what to do if things workout differently from the forecast. In developing and using a profit plan and control (PPC) program, the following limitations should be kept in mind:

a. The profit plan is based on estimates.
b. A PPC program must be continually adapted to fit changing circumstances.
c. Execution of a profit plan will not occur automatically, the profit plan is not a substitute for management.

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

2.13 Profit Planning in Commercial Banks

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

2.14 Development of Profit Plan

Development of profit plan in commercial bank begins, with the preparation of various functional budgets. These functional budgets are in fact the picture of various activities of the bank to be performed during a particular period of time. Therefore the functional budgets of a bank are activity based as such budget for deposit collection, budget or lending and investments, budget for non-fund based business, budgets for expenditures and revenues.

The development of profit plan process that involves managerial/ decisions and ideally high level of management participation. The following are the budget, which are developed in a bank while making a profit plan.

2.14.1 Resources mobilization plan or Budget

The planning for resources mobilization is the foundation for planning in a bank. The all other planning is based on it. The major and the sustainable resource of a bank is the customer deposit. Therefore, the plan for resources mobilization has a primary focus on the customer deposit mobilization. The lending and investment activities are depended on the deposit mobilized by the bank so the deposit mobilization or collection plan is the starting point in preparing the other different plan.

Deposit mobilization is a primary function of a bank, which has major contribution in the total resources of the bank. In terms of cost for the bank customer’s deposits are of two kinds, viz.

- Interest free deposits i.e. current deposit, margin deposit etc. and

- Interest bearing deposit i.e. saving deposit, fixed deposit for various tenure, call deposit etc.

  The interest free deposit are cost free but are generally volatile in nature those can be withdraw without restriction from the bank thus can not be invested in to higher income yielding assets. Further, interest bearing deposits involve cost of deposit but their retention ratio with the bank are much better so they can be put to high income yielding assists having longer tenure.

Therefore, a proper mix of cost free and costly deposits corresponding to short term and longer term deposit are to be maintained by the bank in its deposit mix in order to minimize its average cost of deposit. At the same time having comfortable mix of income yielding assists the cost of deposit of banks in also affected by the prevailing deposit mobilization for the banks.

Banks resources other then customer's deposit are the borrowing from other banks and the capital fond. Generally, banks borrow from other banks to meet temporary requirement of liquidity. Which may occur sometimes during the course of banking operation caused due to unexpected which drawls of deposit or deferment in loan repayments by the borrow by some reason or other such activities are manage from the head office with the least possible cost. Among the capital fond the equity capital is formed generally one time during opening of the bank. The central bank (NRB) may from time to time instruct the bank to enhance the paid up capital to improve the capital adequacy of the bank.

2.14.2 Resources Deployment plan or Budget

The planning for deployment for resources start from assessment of nature of resources to be mobilizes. That is the assets which are allocated on the basics of the nature is called assets allocation approach as M.C. Vansh writes in his book money banking trade and public finance. The fundamental criterions are which must be followed in allocating fund for acquiring different types of assets. That is turnover rate of different sources of supply of fund. Determines the appropriate maturity of the assets acquiring through fund utilization, for instance while relatively stable fund like saving deposit, fixed deposit and paid up capital could to buy long deal high yielding securities demand deposit which care more volatile, could be used to acquire relatively liquid assets like cash or money at call and short notice on which little or no return is made by the bank.

Therefore the budgeted deposit of max is the major determining factor of the planning of assets portfolio. A bank should make the planning for deployment of its resources in such a away that it ensures required liquidity as well optimize the yield on the fond of the bank. Therefore, banks resources deployment process involves following:

a. Deployment in liquid assets.
b. Deployment in lower income yielding assets.
c. Deployment in higher yielding assets.

Funds kept as cash in vault and as balance with NRB and other banks in current account are the most liquid assets of the bank normally banks have to maintain certain fixed percentage of their deposit liability in this form as directed by the control bank form time. There is no yield in the fund deployed as liquid assets.

Deployed for the lower income yielding assets are generally planning the funds in short term securities treasury bills etc. which provides reasonable liquidity to bank as well yield some return although they are at very low rate.

Major portion the income of the bank comes as interest income form the resources deployed to loan advance and bills discounting (LOD). As the most part of the resources are for LDO, banks make its lending budget in advance as per their lending policies. Lending targets are fixed at various borrowers ensuring well diversification of the assets. The targets are. Allocate to the branches, which are generally operated profit center.

2.14.3 Planning for Non-funded Business Activities

The other activities of commercial banks where it does not have to involve its fund, yet it can generate other income are called non-funded business activities of the bank. They are usually letter of credit and bank guarantee issuance business of the bank where the bank undertakes payment liabilities which are contingent in nature and the banks charge certain percentage of commission on such translation to their client who are availing these facilities form bank. The bank fixes annual target for such business and those are allocated to the bank.

2.14.4 Planning for Expenditure

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

a. Administrative expenses
b. Interest expenses.
c. Operating expenses.
d. Loan loss provision.
e. Bad debts.
f. Non-operative expenses.
g. Expenses by the exchange fluctuation etc.

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

2.14.5 Planning for Revenue

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

a. Interest income.
b. Dividend income.
c. Commission and discount.
d. Miscellaneous income.
e. Foreign exchange income.
f. Remittance income.
g. Other non funded incomes.

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

2.15 Implementation of the profit plan

The final test of whether the efforts and cost in developing a profit plan are worthwhile is its usefulness to management. The plan should be developed with the conviction that the enterprises are going to meet or exceed all major objectives. Participation enhances communication. If this principal is to be effective, the various executives and supervisors should have a clear understanding of their responsibilities. The copies of the complete profit plan be prepared and distributed to the member of executive management. The guiding principle in establishing the distribution policy might be to provide one copy to each member of the management team according to his/her overall responsibilities while taking in to an account the problem of security. After distribution of the profit plan a series of profit plan conferences should be held. The top executives discuss comprehensively the plan expectations and steps in implementation. As this top level meeting the important of action flexibility and contributes control may well be emphasized. In essence, each manager has to realize that the budget is a tool for his or her use conferences should be held so as to convey the profit plan to each level of management.

The manager of each responsibility center obtains an approved profit plan for his center and it becomes the basis for current operations and excerpts considerable coordinating and controlling effects.

Performance must be measured and reported to management. Execution of the plan is assured through control procedure must be established so that accomplishment or failure is immediately known on this basis action can be taken to correct or minimize and undesirable effects. Short term performance reporting is essential. “A budgeted programs viewed and administrated in a sophisticated way does not hamper or restrict management instead it provide definite goals around which day to day and mouth to mouth decision are made. Flexibility in the use and application of both the profit plan and variable budgets also should be considered in detail. Flexibility budget application is essential and it increases the probabilities of achieving or bettering the objectives.” (Welsh, 1999)

2.16 Performance Report

Performance reporting is an important part of a comprehensive PPC system. Its phase of a comprehensive PPC program significantly influences the extent to which the organization’s planned goals of objectives are attained. Performance reports deal with control aspect of PPC. The control function of management defined as “The action necessary to ensure the objectives, plan, policies and standards are being attended.” Performance reports are one of the vital tools of management to exercise its control function effectively.

Special external reports, reports to owner and internal reports are specially presented in the organization. Performance reports include in internal reports groups. It is usually prepared on a monthly basis and follows a standardized format. Such reports are designed to facilitate internal control by management. Fundamentally, actual results of report are compared with goals and budget plans. Frequently they identify problems that require special attention since these reports are prepared to pinpoint both efficient and inefficient performance.

2.16.1 Features of Performance Reports

In comprehensive PPC, performance report is very important. The main objective of performance reports is the communication of performance measurements actual results and the related variables. Performance reports offer management essential insights in to all the facts of operational efficiencies. Performance reports should be:

I. Tailored to the organizational structure and focus of controllability (i.e. by responsibility centers).

II. Designed to implements the management by exception principal.
III. Repetitive and related to short term period.
IV. Adapted to the requirement of the primary users.
V. Simple understand & reports only essential information.
VI. Accurate and designed to pinpoint significant distinctions.
VII. Prepared and presently promptly.
VIII. Constructive in tone.

2.17 Review of Previous Studies

2.17.1 Review of books

Peter Rose (1993), In her book "*Commercial Bank Management*" says, achieving superior profitability for a bank depends upon several factors:

- Careful use of financial leverage or the proportion of bank assets financed by debts as opposed by the shareholders equity capital.
- Careful use of operating leverage from fixed assets or the proportions of fixed cost input the bank uses to boost its operating earnings before taxes as bank output grows.
- Careful control of operating expenses so that more dollars of sales revenue become net income.
- Careful control of the bank’s exposure to risks so that more dollars of sales revenue become net income.
- Careful control of the bank’s exposure to risks so that the losses don’t overwhelm its income and equity capital.

Michal R. Baye (1997) and **Dennis W. Jansen (1983)** through their book "*Money, Banking and Financial Markets*" have tried to analyze a bank’s profitability under and economic approach. They state to maximize profits; bank should attract the interest rate paid on deposits.

Interest rate sensitive assets and liabilities, if for example, a bank holds more rate sensitive assets and liabilities when interest rate rise, profits will be improved because the bank receive more in increased interest revenue than it will pay out in rising costs. The reverse would be true during a period of falling interest rates.

The interest gap is the difference between rate sensitive assets and liabilities, holding more rate sensitive assets than liabilities are called a positive Gap and an excess of rate sensitive liabilities over assets result in a negative gap. Emphasizing the bank's modern function Meir Kohn says, Bank now have steadily expanded their activities in payment related services, in delegation and trust services, in credit substitution and services, and in forward transactions. In doing so, they have pursued economics of scope, relatively uncontained by regulations.

Analyzing the behavior and future prospects for profitability of a financial institution is a complex task. Many factors affect each institution's profitability. Among the most important factors are the friskiness of loans and investments made; liquidity needs and the institutions provision for those needs the effectiveness of tax management practices the level of efficiency in utilizing human and non human resources; and the ability of management to control expenses. (Particularly interest expenses and employee costs)

H.D. Crosse puts in this way, lending is the essence of commercial banking and consequently the formulation and implementation of sound policies are among the most important responsibilities of bank directors and management. We conceived lending policies and careful lending practices are essential if a bank is to perform its credit creating function effectively and minimize risk inherent in any extension of credit conditioned, to great extent, by the national policy framework, every banker has to apply his own judgment for arriving at a credit decision, keeping of course his banker's credit policy also in mind. Sing S.P & Sighs, financial analysis for credit management in banks.

2.17.2 Review of Previous Thesis

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

Manandhar, Shyam Krishna (2005) has submitted thesis on the *"Financial performance analysis of Nepal Bangladesh bank ltd"*.

Objectives:

1. To analyze the functions, objectives procedure and activities of the NB Bank.
2. To analyze the lending practices and resources utilizations of NB Bank.
3. To determine the impact of growth in deposit on liquidity and lending practices.
4. To examine the lending efficiency and its contribution to profit.
5. To make suitable suggestions based on the findings of this study. The financial and statistical tools are used.

Findings:

❖ NB Bank has utilized most funds in the form of credit and advances. More than 75% of total deposits of the bank have been forwarded to customers as a credit and advances.

❖ The major part of utilizing deposits and income generating sectors. If the bank has high deposits, bank can provide money to its customers as credit and advances. Therefore, there is highly positive correlation between total deposits and credit and advances of NB Bank.

❖ Bank is providing different schemes to attract good customers. After attracting deposits from the customers, bank has issued the deposits to the needy area to make profit for the bank.

Rimal, Kailash (2008), has submitted thesis on the topic "*Profit planning and control of Nepal Bangladesh Bank Limited.*"

Objectives:

1. To analyze the trend of profit of the fiscal year 2057/58 to 2063/64 of Nepal Bangladesh Bank.
2. To highlight the current profit-planning premises adopted and its effectiveness in NB Bank.
3. To observe NB Bank's Profit planning on the basis of overall managerial Budgets developed by the Bank.
4. To analyze the variance of budgeted allocation and actual achievements.

Findings:

a. Major resources mobilization of NB Bank was at deposit. In this respect they incurred higher cost toward deposit mobilizations.

b. Deposit mobilized by the Bank was found to be considerably growing every year. The average growth over the period of last seven years beings as high as Rs. 10865736.

c. Bank's resources deployment for non-yielding liquid assets (cash and bank balance) increased every year. Thus, making supportive to meeting liquidity requirements of the Bank.

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

Objectives:

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

Findings:

- ❖ The liquidity position of EBL is comparatively better than that of Nabil and Bok.
- ❖ In spite of the current ratio is average among the other two banks EBL has maintained the cash and bank balance to meet the customers demand.
- ❖ EBL has invested highest sectors like government securities than BOK and lesser portion than that of Nabil.
- ❖ From the analysis of assets management ratio it can be found that EBL is in better position as compared to that of Nabil and BOK.
- ❖ EBL has invested the highest portion of total working fund on government securities as compared to Nabil and BOK.
- ❖ Due to more efficient loan policy, Nabil suffers less from loan loss provision.
- ❖ BOK has higher investment on shares and debentures to total working fund ratio.

- The interest earned to total outside assets and return on total working fund ratio of EBL is lowest of all.

Regmi, Satish R. (2008), in his dissertation “credit management of NABIL Bank Limited” highlighted that aggregate performance and condition of Nabil bank. The main objectives & the major findings are as follow.

Objectives:

- To evaluate various financial ratio of the Nabil Bank.
- To analyze the portfolio of lending of selected sector of banks.
- To determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

Findings:

- Assets management position of the bank shows better performance in the recent years. Non-performing assets to total assets ratio is decreasing trend. The bank is able to obtain higher lending opportunity during the study period. Therefore, credit management is in good position of the bank.
- In leverage ratio, debt to equity ratio is an increasing trend. High total debt to total assets ratio posses’ higher financial risk and vice-versa. It represents good condition of total assets to net worth ratio.
- In the aspect of profitability position, total net profit to gross income, the total interest income to total income ratio of bank is in increasing trend. The study shows the little high earning capacity of NABIL through loan and advances.
- Earning per share and the price earning ratio of NABIL is in increasing trend. These mean that the better profitability in the coming last years. It represents high expectation of company in market and high demand of share.
- Loan loss provision to total loan and advances ratio and none-performing loan to total loan and advance ratio of NABIL is in decreasing trend. The ratio is continuously decreasing this indicates that bank increasing performance. Thus, credit management is in a good position.

Maharjan, Luna (2009), is conducted a research entitled “*profit planning in commercial banks: a case Study of standard Chartered Bank Limited”* for this purpose of the study he used the data the major concern of Mrs. Maharjan is to study the profit planning in commercial bank by taking a case study of SCBL. His objectives and some of major finding are as follows:

Objectives:

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

Findings:

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

Kunwar, Narendra (2009), conducted a study entitled *"Profit planning in commercial bank: with a case study of NABIL Bank".* His major objective and finding are:

Objectives:

- To identify the efficiency of planning of NABIL Bank Ltd.

- ❖ To determine the profitability of NABIL Bank Ltd.
- ❖ To examine the fund mobilizing and lending policy.
- ❖ To study the impact of now management techniques in making profit.

Findings:

- ❖ NABIL bank lacks active and organized planning department to undertake innovative products research and development works.
- ❖ Objective of the bank are expressed in literary form, and not specified clearly, therefore, there is a danger if it being misinterpreted in the ways of one's benefit by the concerned.
- ❖ Major concentration of resources mobilization of NABIL Bank is at deposit mobilization.
- ❖ In this respect they are incurring higher cost toward deposit mobilization.
- ❖ Banks resource deployment for non-yielding liquid assets (cash and bank balance) is increasing every year, which is determined to profitability objectives, but it is supportive to meeting liquidity requirement of the bank.
- ❖ Interest expenses amount of the bank is the highest amount other income items in the total revenue.
- ❖ Outstanding letter of credit liability of bank is increasing every year however the growth is not consistent.
- ❖ Interest income amount of the bank is the highest among other income items in the total revenue.
- ❖ The average current ratio of the bank has found to be always higher than standard ratio 2:1, which shows satisfactory liquidity position of the bank.
- ❖ Bank loan policy, Nabil suffers less from loan loss provision.
- ❖ BOK has higher investment on shares and debentures to total working fund ratio.
- ❖ The interest earned to total outside assets and return on total working fund.

Gewali, Chandani (2010), has submitted the thesis on topic "Financial performance analysis as a tools for profit planning (with reference to Everest Bank Limited, Nabil Bank Limited, Bank of Kathmandu Limited)".

Objectives:

1. To find out the relationship between total investment, loan & advances, deposit, net profit and outside assets.

2. To identify the investment priority sectors of commercial Banks.
3. To assess the impact of investment on profitability.
4. To analyze and forecast the trend and structure of deposit utilization and its projection for five years of commercial Banks.
5. To provide suggestions and possible guidelines to improve investment policy and its problems.

Findings:

1. The current ratio of EBL shows the fluctuating trend during the study period. The ratio ranges from lowest 0.94 in 2005/06 to highest 2.38 in 2006/07 an average ratio of 1.334.
2. The cash and Bank balances to total deposit ratio of EBL has fluctuating trend. The main ratio of this bank is higher than NABIL and BOK which indicates that its liquidity position is better to serve its customers deposits withdrawal demands.
3. The mean ratio of cash & bank balance to current assets of EBL is higher than NABIL and BOK. It states that liquidity position of EBL is better in this regard.
4. The mean ratio of investment on government securities to current asset of EBL is average in compared to NABIL and BOK, which states that its investment on government securities is slightly poor than that of BOK.
5. The investment on government securities to current ratio EBL has fluctuating trend. The mean ratio EBL has fluctuating trend. The mean ratio of EBL is lower than NABIL and lower than BOK. The ratio of EBL is variable in comparison to other banks, which indicates that its liquidity positions fewer consistences.

2.18 Research Gap

Today's world is marketed by rapid changes and new developments, as such researchers conducted a few years back may not be adequate to explain current phenomena. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the ace of dynamism. Most of the past research studies about profit planning system are basically related to the profit planning system of manufacturing organization or production oriented activities. The researcher could find some study so far that has been related to profit planning system of commercial bank in Rastriya Banijya Bank, Nepal investment Bank, Standard Chartered Bank, Nabil Bank this study may be a new study in this field as no study has been made profit planning of Nepal SBI Bank Ltd. In the past financial institution were depends only the interest margin in present economic dynamism only the interest margin is not sufficient to improve profitability so this researcher has tried to analyzed the extra ordinary items of income generation in financial institution. To find the new developments and to bridge the gap between the past research and the present situation, I set out to conduct the research in this stimulating topic. I have been through many literature reviews and given my best to fulfill this work. In my research effort had been made to understand the profit planning and control in commercial bank and I hope this research will be fruitful for future researchers as reference.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Research is a systematic and organized effort to investigate a specific problem that needs solution. This process of investigation involves a series of well thought out activities of finding answers to the problem. Thus, the entire process by which we attempt to solve problems or search the answers to questions is called research. "Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it, we study the various steps that are generally adopted by a researcher, studying his research problem among which the logic behind them." (Kothari, 1990:13) In other words, research methodology describes methods and processes applied in the entire part of the study. One of the major objectives of this study is to analyze, examine, height and interpret the financial as well as statistical tools to analyze the data in order to reach a conclusion. Therefore, appropriate research methodology is required.

This chapter deals with the research design, nature and sources of data, data collection procedure and technique of analysis. The study follows the research methodology as described below.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data that to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variances. Research design includes definite procedures and technique which guide to sufficient way for analyzing and evaluating the study. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tool has also been applied to examine facts and descriptive techniques have been adopted to evaluate the profit planning of Nepal. Both the primary and secondary data have been used in order to achieve the above objective.

3.3 Sources of data

Secondary sources of data have been used exclusively for the purpose of this study, viz. the annual reports published by these banks at the end of each fiscal year. Similarly, articles, journals related to the financial performance study, previous research reports etc. were also taken into account while collecting information. Bulletins and reports published periodically by various government bodies have also been helpful in undertaking this research study.

3.4 Population and Sample

As this report aims at studying the profit planning aspect of a commercial bank taking the case study of a Bank i.e. Nepal SBI Bank and data have been analyzed for its operation. The population and sample term is not relevant for this study.

3.5 Data Collection Procedure

As the study is analytical-cum-descriptive in nature, research is based on the historical data of the banks available in the annual reports of the bank. The annual reports were collected from the respective bank i.e. Nepal SBI bank as well as the interest (www.nsbl.com.np). Books, periodicals, journals, articles on the related were extensively reviewed in the library. Quotations from various authors on the related topic have been placed throughout the chapters.

3.6 Research Variables

Loans/advances, overdrafts and Bills Discounted (LDO), customer deposits, total resource, total deployment, outstanding balance of Letter of Credit and Bank Guarantees, Interest Expenses, Interest Income, other income etc. Standard Chartered Bank are the research variable.

3.7 Methods of Data Analysis

Data analysis consists of organizing, Tabulation and performing statistical analysis. Data analysis is done in order to change the unprocessed data into understandable and presentable from. For secondary data the results have been derived by using the data for the period starting from fiscal year 2062/063 to 2066/067. In case of primary data various statistical, accounting, mathematical and financial tools have been used for classification. Tabulation and analysis of the data.

3.8 Tools and Techniques Employed

This study is confined to examine the profit planning of Nepal SBI Bank, therefore the data have been collected accordingly and managed, analyzed and presented in suitable tables, formats, diagrams, graphs, and charts. Such presentation have been interpreted and explained wherever necessary. Financial, mathematical and statistical tools are used to analyze the presented data, which includes ratio analysis, percentage, regression analysis, test of goodness of fit the regression estimates (r^2), correlation, mean, standard deviation, coefficient of variance etc.

3.8.1 Financial Tools

Following financial tools have been used to analyze the data in this study:

- ❖ Ratio analysis: By ratio analysis we study the arithmetical relation ship of two data, in this study, we have applied liquidity Ratio, Capital Structure Ratio, Activity Ratio and Profitability Ratio of the Bank.

3.8.2 Statistical and Mathematical Tools

To draw the conclusion by analyzing the collected data simple statistical tool like arithmetic mean, multiple bar diagram, are used and tabulation are used to implicit the comparative results. We have analyzed the data presented in this study by applying following statistical and mathematical tools.

a) **Percentage increment**

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

b) **Mean**

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

Mean ($\bar{X}$) = $\frac{\sum X}{N}$

c) Standard Deviation (σ)

The standard deviation is the absolute measure of dispersion. It is defined as the positive square root of the mean of the square of the deviation taken from the arithmetic mean. The greater the amount of dispersion or variability, the greater the standard deviation, the greater will be the magnitude of the deviation of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite. Standard deviation can be calculated as,

$$S.D._{x} = \sqrt{\frac{\left(\sum X - \bar{X}\right)^2}{n}}$$

d) Coefficient of variance (C.V.)

The relative measure of dispersion based on the standard deviation is known as the coefficient of variation. It is independent of unit. So, two distributions can bitterly be compared with the help of C.V., more will be the uniformity, consistency, stable and homogeneous etc. and vice versa. It can be calculated by help of following formula,

$$C.V._{x} = \frac{\sigma_x}{\bar{x}}$$

e) Correlation of coefficient (R)

Correlation analysis is the statistical tools use to describe the degree to which one variable is linearly related to another. The coefficient of correlation measures the direction of relationship between the two sets, of figures. It is the square root of the coefficient of determination. Correlation can either be negative or positive. It always lies between +1 to -1. The degree of association between two variable, say X and Y, and is defined by correlation coefficient (R).

$$R = \frac{n\sum xy - \sum x.\sum y}{\sqrt{n\sum x^2 - (\sum x)^2} ´ \sqrt{n\sum y^2 - (\sum y)^2}}$$

f) Probable error (PE)

The reliability of co-efficient of correlation helps in interpreting its value with the help of probable error. It is possible to determine the reliability of the value of co-efficient. We can calculate P.E by the following formula:

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

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter is devoted to the presentation, analysis, interpretation and scoring the empirical finding out of the study through definite course of research methodology. To achieve the stated objective of the study researcher has tabulated the available data in different figure, table and analyzed using the tools where necessary and applicable stated in the research methodology.

4.1 Mission Statement of Nepal SBI

To be leading Nepali Bank, delivering world class service through the blending of state-of-the art technology and visionary management in partnership with competent and committed staff, to achieve sound financial health with sustainable value addition to all our stakeholders. Nepal SBI is committed to do this mission while ensuring the highest levels of ethical standards, professional integrity, corporate governance and regulatory compliance. (www.nepalsbi.com.np)

4.2 Resource Mobilization Planning

The resource means required fund for the bank operation. It includes capital fund, loan and borrowing, deposit collection and other liabilities. Among these, some resources are cost bearing and some are cost free sources. Here the researcher going to present status of available resources of Nepal SBI in tabular and figure form.

Table 4.1

Status of available resource of Nepal SBI

(Rs. In 'Lakh')

	Deposit		Borrowing		Shareholder Fund		Other liabilities		Total
F/Y	Amount	%	Amount	%	Amount	%	Amount	%	Amount
2062/63	110020.41	84.69	8124.29	6.25	9823.74	7.56	1927.57	1.48	129896.01
2063/64	114452.86	82.62	10153.65	7.32	11632.91	8.39	2284.03	1.64	138523.45
2064/65	137153.95	80.15	18274.80	10.68	14146.45	8.26	1548.11	0.90	171123.31
2065/66	279572.21	92.87	2000.00	0.66	17126.07	5.69	2336.64	0.77	301034.92
2066/67	348964.24	91.89	2000.00	0.53	24505.54	6.45	4283.33	1.13	379753.11

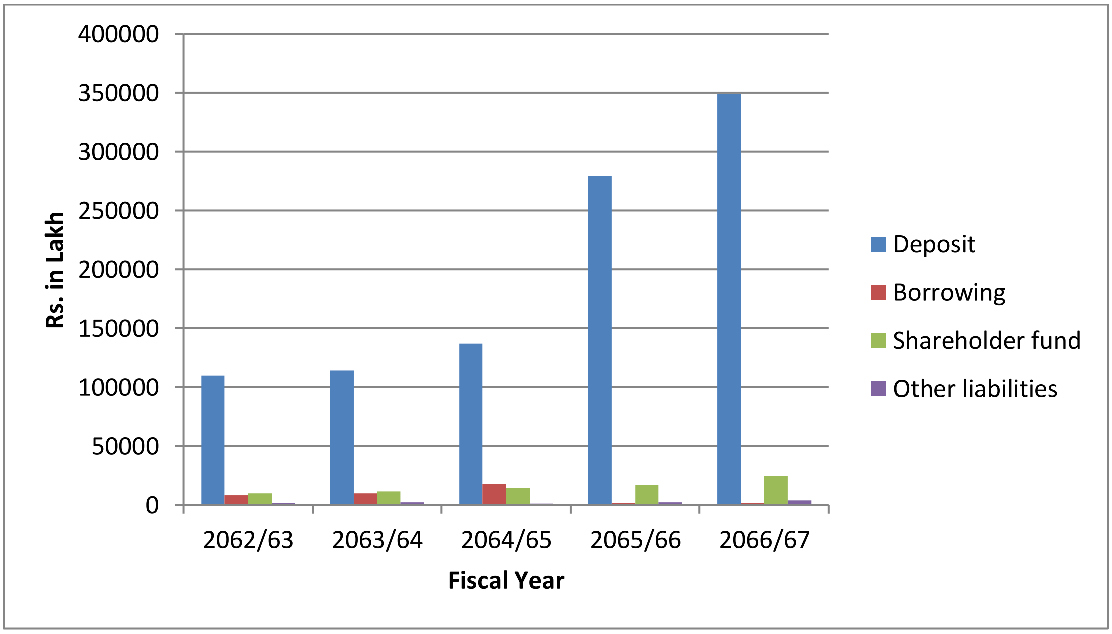
Source: Annual Reports of Nepal SBI

The above table shows the status of total resources of Nepal SBI. The resources are collected from customer deposit, shareholder fund, other liabilities and borrowing. The major source of resource collection is customer deposit since it has higher figure in the above table. For the more analysis purpose the resources plotting in the figure below.

The above table shows the resources of available resource used by the bank.

Figure 4.1

Bar diagram Showing Status of Available Resources of Nepal SBI



The above table, bar diagram show deposit collection is the major source of resource collection so we have divided total resources in two parts one is deposit collection and another is other resources (other than deposit).

❖ Customer Deposit collection

❖ Other Resources

4.3 Customer Deposit Collection

As deposit collection is major activities of commercial bank, it is important source of resource mobilization. As per the data F/Y 2062/063 to 2066/067 the customer deposit is high as 85%. These deposits are collected from different sectors that are individual and corporate customer. Deposits are collected as per the bank's rules. Some deposits are interest bearing and some interest free. The bank has categorized the deposit into two types which is as follows:

1. Interest Bearing Account
   a. Saving Account
   b. Call Deposit Account
   c. Fixed Deposit Account

2. Interest Free Account
   a. Current Deposit Account
   b. Margin Deposit Account
   c. Other Deposit Account

4.3.1 Deposit Collection Budget of Nepal SBI

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

Table 4.2

Status of Budgeted and Actual Deposit Collection

(Rs. In Lakh)

Fiscal Year	Budgeted figure	Actual Figure	Achievement
2062/63	112889	110020	97.45%
2063/64	118089	114453	96.92%
2064/65	140173	137154	97.84%
2065/66	280520	279572	99.66%
2066/67	366328	348964	95.26%

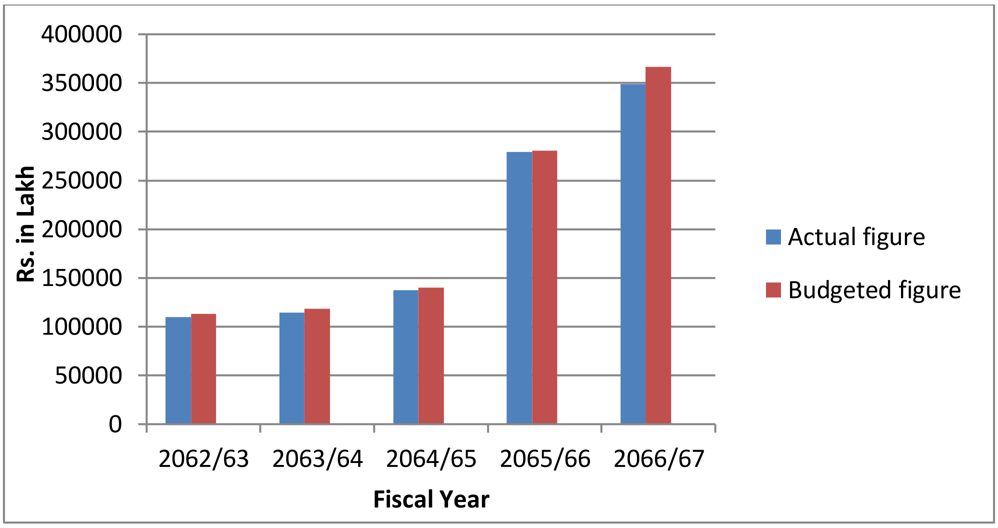
Sources: Annual reports and Budgeted of Nepal SBI

The above table the status of budgeted and actual deposit collection of Nepal SBI. The bank has achieved its objectives of deposit collection ever year almost 100%. The base of preparing the budgets is the actual deposit collection the last year. The achievement range is slightly fluctuating.

It ranges between 95.26% to 99.66%, through the five year of study period. The data of table are presenting in bar diagram for the analysis purpose.

Figure 4.2

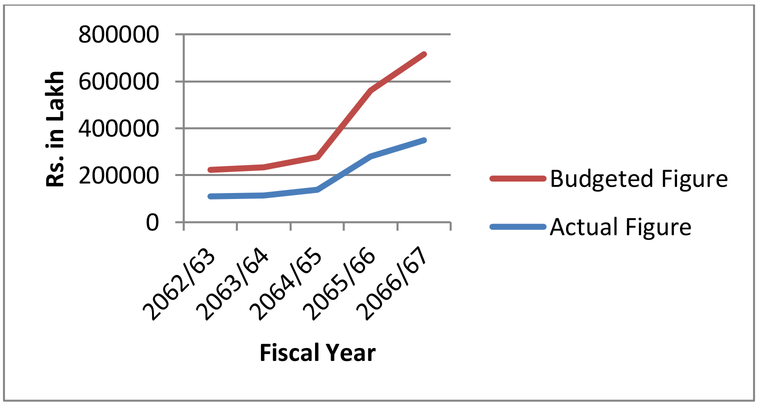
Bar diagram showing Budgeted and Actual Deposit Collection



The above bar diagram shows the budgeted and actual figure of deposit collection of Nepal SBI. The actual deposit is nearest to the budgeted figure so that the targeted collection of deposit has almost met every year by Nepal SBI. The position of budgeted and deposit collection showing in the trend line. We can see diagram in increasing trend but in year 2065/66 increasing trend is high.

Figure 4.3

Trend line showing budgeted and actual Figure



Above table and figures shows the deposit collection is almost meet the target budgeted amount. This gives the high level of achievement made by bank toward deposit collection sector. In the above bar diagram, budgeted deposit is quite higher then actual deposit, Scatter diagram shows budgeted collection deposit is higher then actual amounts. Nepal SBI is well performing in the deposit collection sector. The researcher finds the relationship and statistical results between budgeted and actual deposit collection by using some statistical tools like arithmetic mean, standard deviation, coefficient of variation and Correlation, regression and probable error.

Table 4.3

Summary of Deposit Collection Budget and Actual Deposit

(Rs. In Million)

Statistical Tools	Budgeted Deposit (X)	Actual Deposit (Y)
Mean	2036	1980
Standard Deviation	1762.52	1721.33
Coefficient of Variation	86.57%	86.93%%
Correlation of Coefficient (r)	0.999	
Probable Error (PE)	0.0036 (r>6PE)	

Sources: Appendix-1

The above table shows that actual deposit is more variable then budgeted deposit since the CV if actual deposit is higher than budgeted deposit. Budgeted deposit is mare consistent and homogeneous actual deposit is quite more variable in nature. A greater CV represents less homogenous. By using another statistical tool correlation co-efficient to analyze the relationship between budgeted deposit and actual deposits. It is used Karl person's coefficient of correlation which is denoted by (r). By calculating (r) can examine whether positive correlation between budgeted deposits and actual deposit is or not. Budgeted deposit is denoted by X and assumed to be independent variable and actual deposit is denoted by Y is assumed to be dependent variables. So that increased in budget is support to increase in actual achievement or vice versa, this meant that there should be positive correlation between, budgeted figure and achievement figures. Significance of correlation of (r) tested with probable error (PE) by the calculation as per appendix 1. The researcher have found (r) is 0.999 and PE is 0.00060 the figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is r > 6PE so it is significant so the actual deposit going on same direction.

4.4 Resources Deployment Plan of Nepal SBI

Allocation of available resources into different sector is called deployment of resources plan. Resources can be used for maintain liquidity, investing in income generating activities, investing for fixed assets purchase and other assets. The available resources can be allocated in to three purposes these are listed below.

- ❖ To maintain the liquidity position
- ❖ To invest in income generating activity
- ❖ To purchase fixed and other assets

A) Deployment to maintain Liquidity Position

Liquidity need to be the purpose of payment of withdrawals from deposit amount and payment for other liabilities and expanses. The liquidity can be maintained in terms of cash in vault and balance in bank. The return on such amount may be nominal at all. The central bank of Nepal NRB has instructed to commercial bank to maintain certain liquidity as per their deposits. The liquidity position return and lower the liquidity became failure to repay the deposit.

B) Deployment for Income Generating Activities

The major function of a commercial bank is to collection of deposit and invests them in different sector as loan Deployment of fund in income generating activities can divided in to two categories.

- ❖ Loan, Discount, Overdrafts (LDO)
- ❖ Other investment

LDO refers loan, advances, O/D, Bills Purchase & Discount & other loan which generates income in terms of interest other investment includes, investment in securities, Treasury bill etc.

Table 4.4

Total income Generating Deployment of Nepal SBI

(Rs. In 'Lakh')

F/Y	Investment		Loan and Advance		Total
	Amount	%	Amount	%	
2062/63	36107.75	32.13	76267.36	67.87	112375.11
2063/64	26594.53	21.94	94604.51	78.06	121199.04
2064/65	30888.87	20.32	121136.98	79.68	152025.85
2065/66	132861.82	46.75	151317.48	53.25	284179.30
2066/67	163056.33	48.26	174805.48	51.74	337861.81

Source: Annual Report 2062/2063 to 2066/67

The above table shows the status of income generating deployment of Nepal SBI. The major portion of deployment of the bank covers by the loan and advance. The range of loan and advance is 51.74% to 79.68% where as the range of investment is 20.32% to 48.26%.

C) Deployment in Other Assets

Assets needs in the organization to show the performance of business such assets may be fixed or current. These assets can't give returns directly but without these others activities can't be run smoothly. Fixed Assets subject to write off at certain period of time as expenses.

4.4.1 Budgeted and Actual LDO of Nepal SBI

Since the LDO is a major sector of deployment of the bank the researcher going to analyze about the position of LDO of Nepal SBI. Following table shows the budgeted amount of LDO and the same achieved actually.

Table 4.5

Budgeted and Actual Loan, Discounted, Overdraft of Nepal SBI

(Rs. In 'Thousand')

Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2062/63	8,452,590	7,626,736	90.23%
2063/64	10,583,210	9,460,451	89.31%
2064/65	14,913,420	12,113,698	81.23%
2065/66	17,528,230	15,131,748	86.23%
2066/67	20,699,287	17,480,548	84.45%

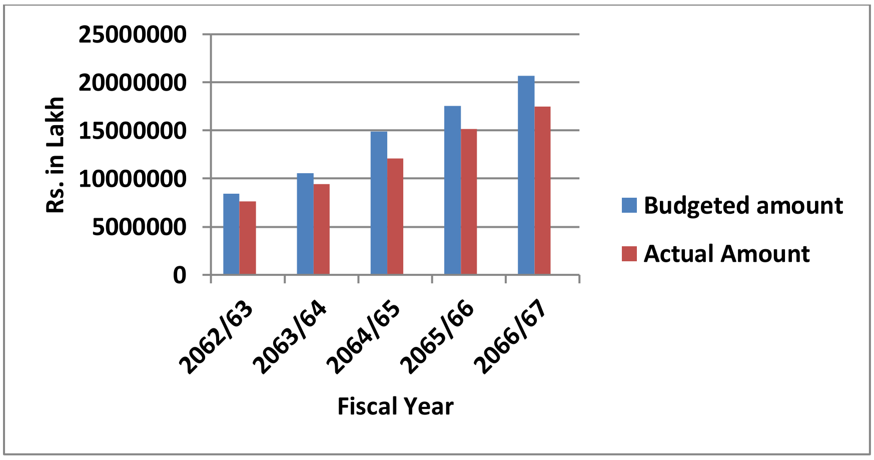
Source: Annual Reports and Budget statement of Nepal SBI

Above table shows that status of budgeted and actual LDO of Nepal SBI. The actual achievement of LDO is able to achieve almost 100% of targeted LDO. This indicates that the bank is successful enough to meet the targeted achievement.

The range of achievement over the five year period is 81.23% to 90.23% it shows that Nepal SBI has meet the targeted investment in LDO in every year but the achievement trend is not same increment trend. For the study purpose the figure of LDO are presented in bar and scatter diagram and draw conclusion accordingly.

Figure 4.4

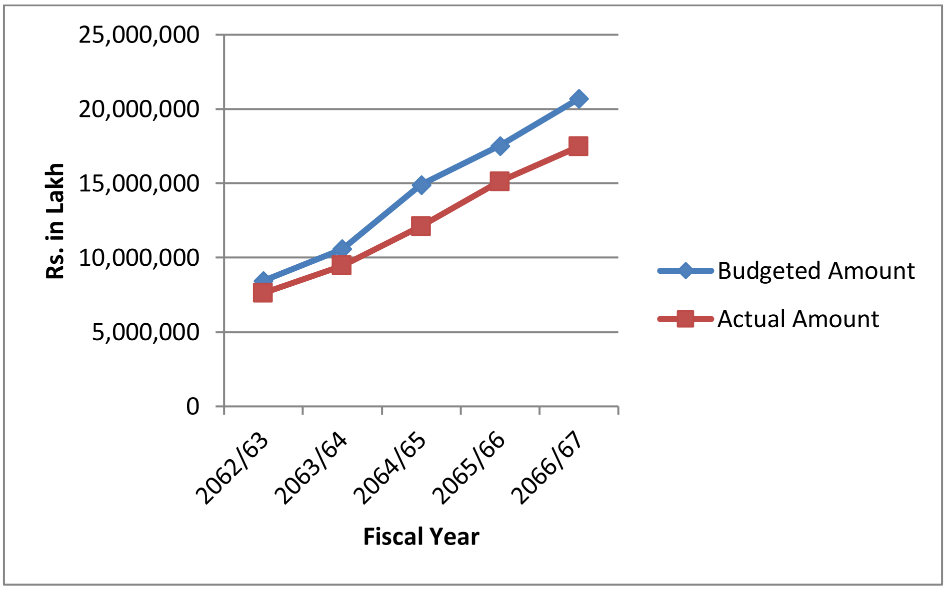
Bar Diagram of Budgeted and Actual LDO of Nepal SBI



The above bar diagram shows the trend of budgeted and actual deployment of resources in the sector of LDO. The trend of actual deployment is in increasing trend and budgeted too. The actual achievement of LDO has almost met the budgeted LDO in every year. For the more analysis purpose the figure of budgeted and actual LDO in presenting in scatter diagram to show the relationship between budgeted figure and actual achievement throughout the study period.

Figure 4.5

Trend line showing the status of budgeted and Actual Deployment in LDO of Nepal SBI



The budgeted deployment in LDO is in higher position than actual LDO throughout the study period it means the scatter diagram shown that the relation between actual achievements is quite down than budgeted LDO. This researcher is going to find the relationship between the budgeted LDO with that of actual for different years by the help of statistical tools. The summery of LDO budget and achievement are presented below.

Table 4.6

Summary of Budgeted LDO and Achievement

(Rs. in 'million')

Statistical Tools	Budgeted LDO (X)	Actual LDO (Y)
Mean	1443.2	1236.2
Standard Deviation	1372.39	1182.68
C.V.	95.07%	95.67%
R	0.9958	
PE	0.014450 (r > 6PE)	

Source: Appendix – 2

The above table shows that Actual LDO is less variable than Budgeted LDO. Since the coefficient of variations of actual LDO is higher than that of budgeted LDO, smaller CV represent homogeneous to the data. Budgeted LDO are more homogeneous than Actual.

We can use another statistical tool correlation co-efficient to analyze the relationship between budgeted LDO and Acutal LDO. There should be positive correlation between budgeted and actual LDO. We can take the help of Karl person's coefficient of correlation to find correlation between actual LDO and budgeted LDO. For this purpose budgeted LDO is denoted by X and actual LDO is denoted by Y. Here X is independent variable and Y is independent variable. Here the correlation between budgeted and actual LDO is 0.9956 it means the relation between budgeted and actual LDO are perfectly correlated. Significance of r is tested with PE we have r > 6 PE this means the value of r is more significant. So it is no doubtful that actual LDO will go on same direction that of budgeted LDO.

4.4.2 Resources Deployment in Other Sector (NLDO)

The portfolio of NLDO consists of liquidity in terms of cash and bank balance, investment, fixed and current assets. The budgeted and actual deployment in other sector listed in following table over the study period.

Table 4.7

Status of Budgeted and Actual Deployment in Other Sector (NLDO)

(Rs. in 'Lakh')

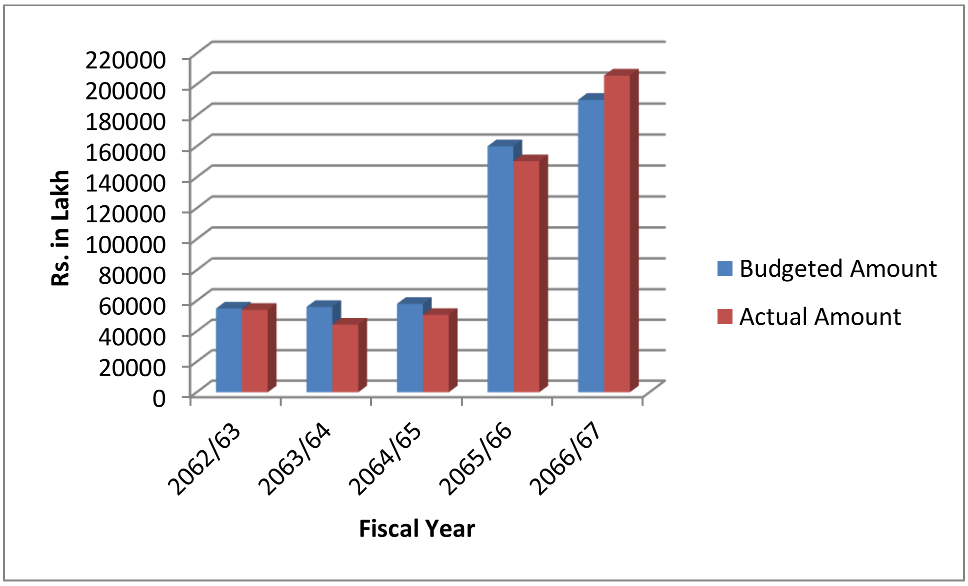
Fiscal Year	Budgeted Amount	Actual Amount	Achievement
2062/63	55000	54091.02	98.35%
2063/64	56000	44407.5	79.30%
2064/65	58000	50737.47	87.48%
2065/66	160000	150346.92	93.97%
2066/67	190000	205671.31	92.38%

Source: Annual Reports and Budget Statement of Nepal SBI

The above table shows the status of budgeted and actual deployment in other sector than LDO (NLDO). The actual achievement of investment in other sector has achieved almost 100% on each year. The rate of such achievement is fluctuating trend over the study period. The achievement is 98.35% in F/Y 2062/63 and it decreased in F/Y 2063/64 to 79.30%. In F/Y 2064/65 it increases to 87.48% and again in F/Y 2065/66 it increases to 93.97% & slightly decreases in F/Y 2066/67. The average rate of achievement over the five year is 90.30% this indicates that the bank have to achieved its target by 9.70% approximately. For the analysis purpose the status of budgeted and actual NLDO is presenting in diagram below.

Figure 4.6

Bar Diagram Showing Status of Budgeted and Actual NLDO of Nepal SBI



Above table and diagrams shows that almost 100% of achievement of targets in deployment of resources other than LDO that is NLDO to show the relationship between budgeted and actual NLDO we have calculated some values by using statistical tool below.

Table 4.8

Summary of NLDO of Nepal SBI

(Rs. in Million)

Statistical Tools	Budgeted NLDO (X)	Actual NLDO (Y)
Mean	1038	1010.2
Standard Deviation	854.63	770.98
C.V.	82.33%	76.32%
r	0.9926	
P.E.	0.0264 (r > 6P.E.)	

Source: Appendix – 3

The above table shows the summary of investment in other sector (NLDO). The average investment in other sector is about to the budgeted figure. It means the target has been almost achieved. The Budgeted NLDO is more variable in nature since it has higher C.V. it means that the Actual figure is more consistent and homogeneous than budgeted NLDO. The correlation between budgeted and actual NLDO is denoted by r. The value of r is 0.9926 so the relationship between budgeted and actual figure is highly correlated. The significant of r can be measured by the probable error here the r > 6PE so the r is significant.

4.4.3 Actual Deposit and Outstanding LDO of Nepal SBI

Customer deposit and deployment in LDO is major activities of Nepal SBI. As it is understood the major source of resources mobilization of NSBI is the customer deposit and similarly the major outlet for deployment portfolio is for is for loan and advance and bills discount (LDO). It is desirable to analyze the comparative status of the same for the study period. Following table shows actual balance of deposit and actual position of deployment toward LDO.

Table 4.9

Status of LDO VS Actual Deposit of Nepal SBI

(Rs. in Thousand)

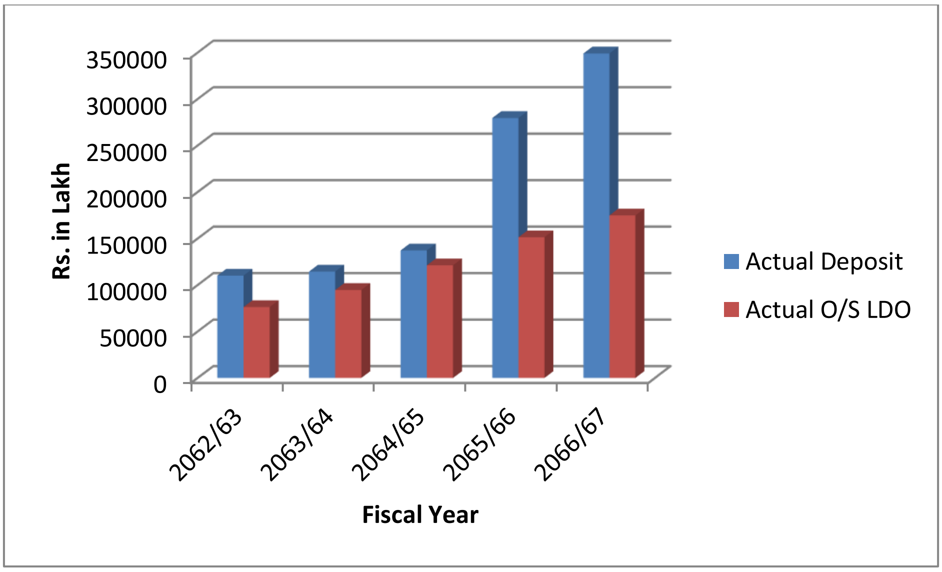
Fiscal Year	Actual Deposit (Balance)	Actual O/S LDO	LDO to Deposit Ratio
2062/63	110020	76267	69.32%
2063/64	114453	94605	82.66%
2064/65	137154	121137	88.32%
2065/66	279572	151317	54.12%
2066/67	348964	174805	50.09%

Source: Annual Reports of Nepal SBI 2062/63 to 2066/67

The above table 4.9 shows the status of actual deposit balance and actual o/s LDO. The actual deposit balance and actual o/s LDO both are in increasing trend throughout the study period. The utilization of deposit collection in terms of LDO is fluctuating trend in percentage. The range of LDO to deposit ratio is 50.09% to 88.32%. This indicates that the bank invest in LDO out of total deposit in the range of 50.09% to 88.32% over the five year time period. For the analysis purpose the figure of actual deposit balance and actual o/s LDO is presenting in the figures.

Figure 4.7

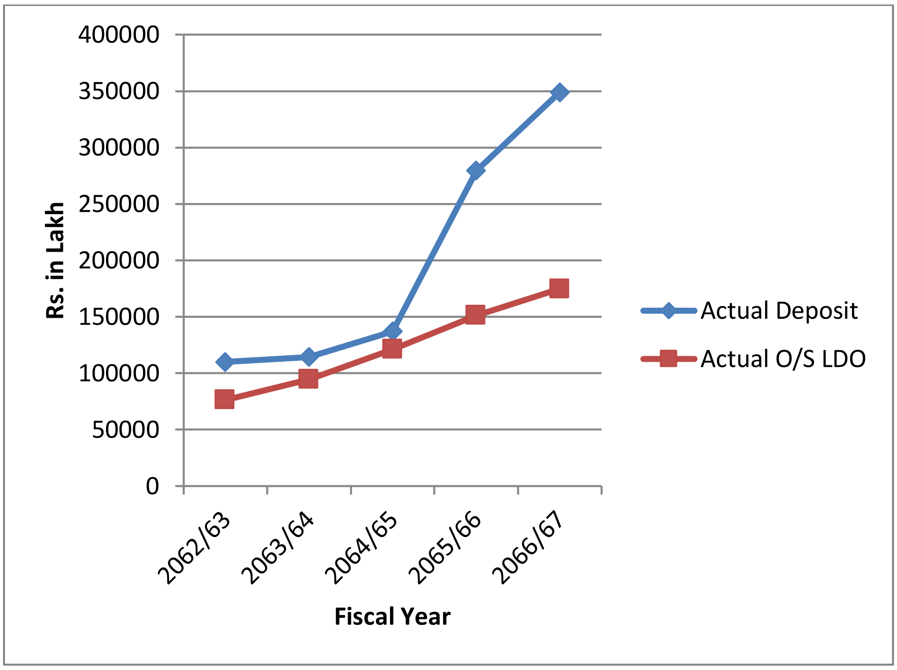
Bar Diagram Showing Actual Deposit and Actual LDO of Nepal SBI



The above diagram is showing the position of actual deposit balance and actual outstanding balance of LDO. The position of actual deposit is higher than the actual LDO. Both are in increasing trend throughout the study period.

Figure 4.8

Trend Line Showing Actual Deposit and Actual LDO of Nepal SBI



From the above table and figures it can be found that both the deposit and LDO is in increasing trend over the period. The average ratio of LDO to deposit is 68.90%. It means that the bank invest in NLDO 30% in average. Now researcher is going to analyze by using some statistical tools to find the variability of deposit and LDO. We have to calculate arithmetic mean, standard deviation, coefficient of variation, correlation of coefficient, probable error.

Table 4.10

Summary of Actual Deposit and Actual O/S LDO

(Rs. in 'million')

Statistical Tools	Actual Deposit	Actual O/S LDO
Mean	1980	1236.2
Standard Deviation	1721.33	1182.68
C.V.	86.93%	95.67%
r	0.9501	
P.E.	0.1758 (r > 6P.E.)	

Source: Appendix – 4

The above table shows that actual O/S LDO is more variable than actual deposit since it has higher C.V. On the other hand actual deposit more consistent than Actual outstanding LDO it means the deposit is consistent in nature. The relationship between actual deposit and actual outstanding LDO can be measured by co-relation between them. We can take the help of Karl Person's Co-efficient of correlation to find correlation between actual deposit and actual outstanding LDO. The correlation r is 0.9501 this means it is perfectly correlated between actual deposit and actual outstanding LDO. Significance of correlation r is tested with probable error (PE) here the 6PE < r so the calculation of r is highly significance.

4.5 Interest Expenses

The bank collected from various sources. Among them some are non cost bearing and some are cost bearing sources. Interest expenses incurred for making payment of cost of such deposit amount which are interest bearing deposit. The interest holds highest percentage of expenses amount because deposit holds highest portion of total available resources. The bank may have different interest rate in different types of account. Here, the researcher going to analyze the average cost of deposit throughout the study period.

Table 4.11

Status of Average Cost of Deposit

(Rs. in 'Lakh')

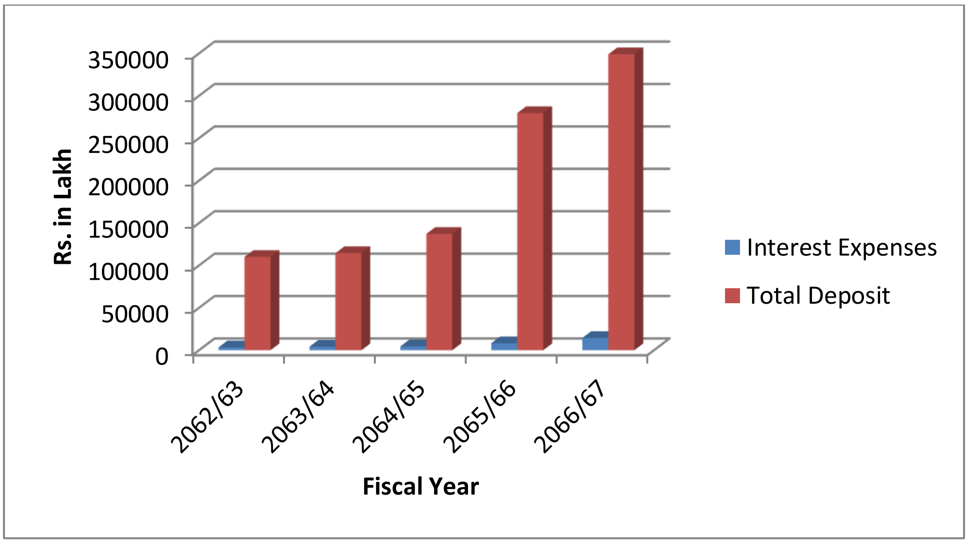
Fiscal Year	Interest Expenses	Total Deposit	Cost of Deposit (%)
2062/63	3347.70	110020	3.04%
2063/64	4122.62	114453	3.60%
2064/65	4549.18	137154	3.32%
2065/66	8247.00	279572	2.95%
2066/67	14436.93	348964	4.14%

Source: Annual Reports of Nepal SBI 2062/63 to 2066/67

The above table shows the total deposit and interest expenses of respective year. The deposit amount is in increasing trend likewise the interest too. The table shows the cost of deposit in percentage. The Nepal SBI cost of deposit (interest) range between 2.95% to 4.14% over the study period. The cost of deposit of the bank is fluctuate nature but slightly decreasing trend. In this situation also bank decrease cost of deposit it shows the achievement of the bank. The relation between COD and total deposit can show on the bar diagram below.

Figure 4.9

Bar Diagram Showing Average Cost of Deposit



The bar diagram shows the status of interest expenses and total deposit in respective fiscal year. The amount of total deposit is in increasing trend likewise interest is changing trend accordingly. The amount of interest expenses is increasing every year.

Table 4.12

Summary of Actual Deposit and Interest Expenses

(Rs. in 'million')

Statistical Tools	Actual Deposit (X)	Interest Expense (Y)
Mean	1980	69
Standard Deviation	1721.33	55.42
C.V.	86.93%	80.32%
R	0.962	
P.E.	0.135 (r < 6PE)	

Source: Appendix-5

The above results show that the total deposits are more variable than interest expenses. Hence the coefficient of variation of total deposit was higher than of interest expenses. Another statistical tool, correlation of coefficient can be used to analyze the relationship between total deposit and interest expenses. There should be positive correlation between total deposit and interest expenses. In other words the total deposit increased as the interest expenses increase or vice versa. To finds out correlation between interest expenses and total deposit with the help of Karl Person's coefficient of correlation and it is denoted by 'r' to examine whether there is positive correlation between interest expenses and total deposit or not.

For this purpose total deposit (X) was assumed to be independent variable and interest expenses (Y) assumed to be dependent variable. So that increase in total deposit will support to increase in interest expenses and vice versa. After this significance of 'r' was tested with probable error of 'r' the detail calculation of 'r' was tested with probable error of 'r' the detail calculation of 'r' and probable of 'r' was presented in appendix 5. From this appendix the value of 'r' and P.E. is 0.962 and 0.0225 respectively were calculated. Since r < 6 P.E. (0.962 > 0.0225) the value of 'r' was significant. There was perfect correlation between total deposit and interest expenses.

4.6 Interest Income

Interest income also called return of LDO contributes major portion of total revenue mix. Now, researcher is going to analyze the comparative status of total return on LDO with the help of table & diagrams.

Table 4.13

Status of Average Return of LDO

(Rs. in 'Lakh')

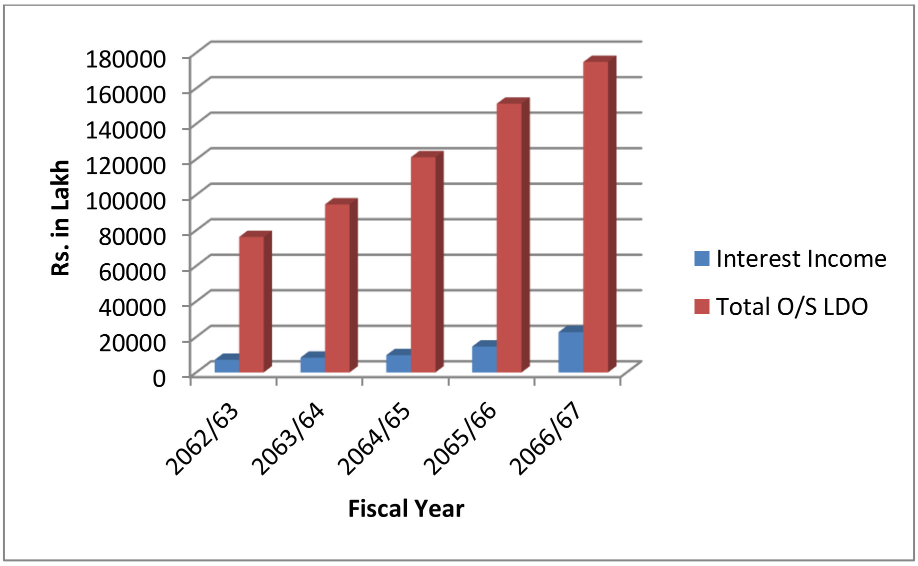
Fiscal Year	Interest Income	Total O/S LDO	Average Rate of Return
2062/63	7087.19	76267	9.29%
2063/64	8311.17	94605	8.79%
2064/65	9705.13	121137	8.01%
2065/66	14604.5	151317	9.65%
2066/67	22697.04	174805	12.98%

Source: Annual Reports of Nepal SBI 2062/63 to 2066/67

The above table shows the comparative status of interest income with the o/s LDO and the return on same LDO. The interest income is in fluctuating trend as the LDO has increased whereas the rate of return on LDO is fluctuating trend. The range of rate of return lies between 8.01% to 12.98%, in the five year period. It is effective to analyze the relationship between o/s LDO and interest income by using the statistical tools to find out the variability of actual LDO and actual income of different years we have to calculate arithmetic mean, standard deviation, coefficient of variation, coefficient of determination and correlation of coefficient. The detail calculation of these statistical tools are presented in appendix no. 6 now summary of calculation listed below.

Figure 4.10

Bar Diagram Showing Average Return of LDO



The bar diagram shows the status of interest income and total LDO in respective fiscal year. The amount of total LDO is in increasing trend likewise interest is changing trend accordingly. The amount of interest income is increasing every year.

Table 4.14

Summary of Actual LDO and Interest Income

(Rs. in million)

Statistical Tools	Actual LDO (X)	Interest Income (Y)
Mean	1236.2	124.8
Standard Deviation	1182.68	114.95
C.V.	95.67%	92.11%
R	0.9388	
P.E.	0.2147 (r < 6PE)	

Source: Appendix-6

The above results show that actual o/s LDO is more variable than interest income since CV of LDO is higher than of interest. There is positive correlation between o/s LDO and interest income. In other words the interest income increases as the LDO increase or vice versa. To find the correlation between interest income and actual LDO we can take the help of Karl Person's coefficient of correlation and it is denoted by 'r' we can examine whether there is positive correlation between interest income and actual LDO. The actual LDO (X) is assumed as independent variable and interest income (Y) is assumed to be dependent variable. So that increase in LDO will support to increase in interest income and vice versa. After this significance of 'r' is tested with the probable error or 'r'. The value of r is 0.9388 & PE is 0.0358 since r < 6PE the value of r is insignificant. From the calculation shown in appendix no. 6 the value of r is 0.9388. Now the coefficient of determination which explains the change in Y variable i.e. interest income by x variable i.e. LDO can be calculated as the r^2 . r^2 = 0.9388 = 0.8813

4.6.1 Interest Margin

The difference between interest income and interest expenses is called interest margin. Following table shows the movement in interest margin throughout the study period of Nepal SBI.

Table 4.15

Movements in Interest Margin of Nepal SBI

(Rs. in 'Lakhs')

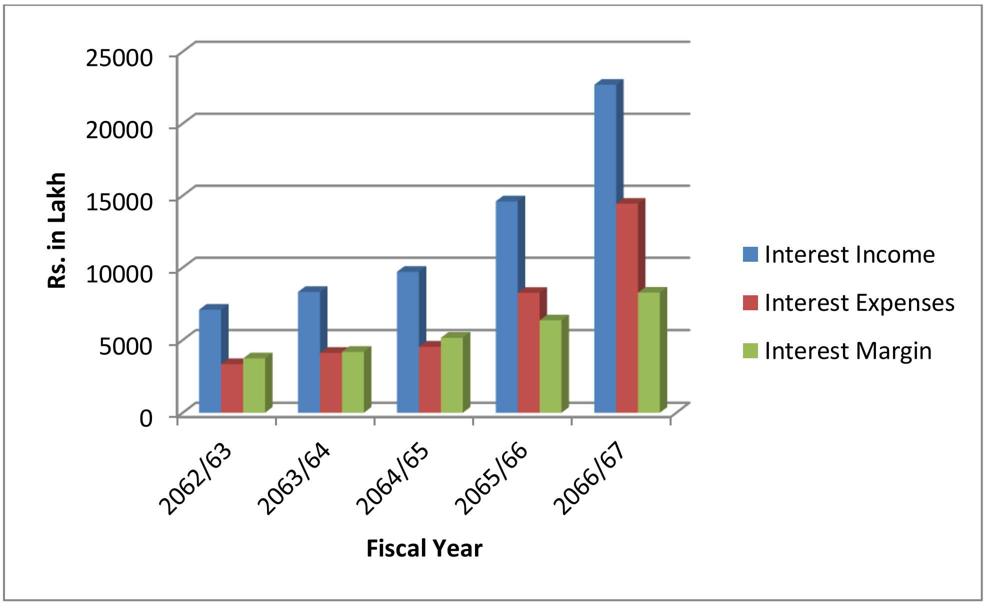
Fiscal Year	Interest Income (X)	Interest Expenses (Y)	Interest Margin (X-Y)	Growth in Interest Margin
2062/63	7087.19	3347.70	3739.49	16.88%
2063/64	8311.17	4122.62	4188.55	12.01%
2064/65	9705.13	4549.18	5155.95	23.10%
2065/66	14604.5	8247.00	6357.46	23.30%
2066/67	22697.04	14436.93	8260.11	30.74%

Source: Annual Reports of Nepal SBI 2062/63 to 2066/67

The above table shows the position of interest margin and its growth throughout the study period. The figure of interest margin is fluctuating trend every year. The base year to calculate the interest margin is F/Y 2062/63. The position of interest income, interest expenses and interest margin is presenting in the bar diagram.

Figure 4.11

Bar Diagram Showing Interest Margin of Nepal SBI



The above bar diagram is showing the status of interest margin with comparison with interest income and interest expenses of Nepal SBI. The fundamental purpose of this diagram is to show the relationship of interest margin so the trend of interest margin throughout the seven years period is fluctuating.

4.7 Performance Evaluation of Nepal SBI

Performance evaluation can help to outline the strength and weakness of management and help to improve the weakness of management and to energize to accomplishment of organizational goal. Here researcher going to analyze by using various technique and criteria to evaluate performance of NIBL some financial tools is as follows:

- ❖ Ratio Analysis
- ❖ Cost Volume Profit Analysis

4.8 Ratio Analysis

"Ratio refers to the numerical relation to component parts of financial statement to each other. Ratio relationships are computed to obtain information about various characteristics and conditions of firm" (Bagavati and Pilli, 2000:1339). Ratio analysis is a technique of analysis and interpretation of financial statement through mathematical expression. It may be defined as the mathematical expression of the relationship between two accounting figures. To evaluate the different performance of an organization by creating the ratios from the figures of different accounts is termed as ratio analysis. Ratio used for financial analysis of business can be classified in to four categories.

- ❖ Liquidity Ratio
- ❖ Leverage Ratio
- ❖ Activity Ratio
- ❖ Profitability Ratio

4.8.1 Liquidity Ratio

Liquidity Ratio is ability of a firm to pay short term liabilities. Liquidity ratio reflects the short term financial strength of a firm. This ratio is calculated by the help of current assets and current liabilities. Here the researcher is going to calculate the current ratio of Nepal SBI. Current ratio is calculated dividing current assets by current liabilities. The details of current assets and current liabilities are shown on Appendix No. 7.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 4.16

Current Ratio of Nepal SBI

(Rs. in 'Lakh')

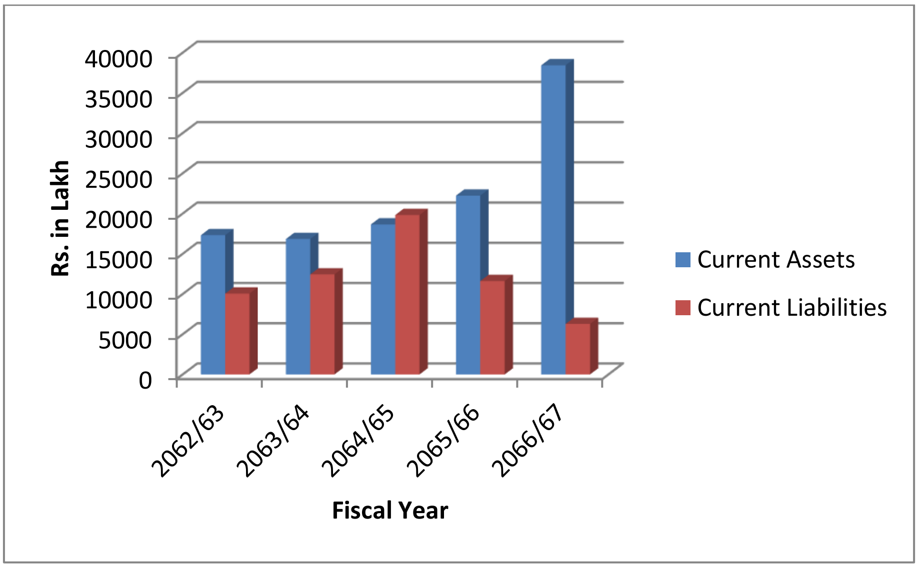
Fiscal Year	Current Assets (X)	Current Liabilities (Y)	Current Ratio (X/Y)
2062/63	17316.15	10051.86	1.72:1
2063/64	16840.78	12437.68	1.35:1
2064/65	18646.38	19822.91	0.94:1
2065/66	22223.89	11611.3	1.91:1
2066/67	38432.53	6283.33	6.12:1

Source: Appendix-7

The above table shows the liquidity position of Nepal SBI. Higher the current ratio better the liquidity position, for the many types of business 2:1 is considered to be an adequate ratio. If the current ratio of a firm is less than 2:1, it means the firm has difficulty in meeting its current obligation. If the current ratio is more than 2:1 the company may have an excessive investment in current assets that do not produce satisfied return. The current ratio of Nepal SBI in the year 2062/63 and 2063/64 met the standard of 2 : 1 but in the year 2066/67 current ratio is more than 2 : 1 the company may have an excessive investment in current assets that do not produce satisfied return. The relationship between current assets and current liabilities presenting in the bar diagram for the analysis purpose.

Figure 4.12

Bar Diagram Showing Current Assets and Current Liabilities of Nepal SBI



Above bar diagram shows the status of current assets and current liabilities of Nepal SBI over the seven years period. By the diagram the position of current assets is higher than the position of current liabilities every year except 2064/65. It means the bank have to maintain its liquidity position every year for good performance.

4.8.2 Leverage Ratio

The leverage ratio also called capital structure ratio. The leverage ratio calculated to judge the long term financial position of a firm. These ratios measure the firm's ability to pay the interest regularly and to pay the principal on maturity. The following ratios are included in leverage ratio.

- ❖ Debt-Equity Ratio
- ❖ Interest Coverage Ratio

4.8.3 Debt-Equity Ratio

The relationship between long term debt and share holder's equity is called debt equity ratio. Debt-Equity ratio measures the long term financial solvency of a business concern.

It is calculated by dividing to long term debt by Share holder's equity. The Debt-Equity Ratio can be calculated dividing to borrowings by share holder equity the details of borrowings and share holders equity shown on Appendix no. 7.

$$\text{Debt-Equity Ratio} = \frac{\text{Borrowings}}{\text{Shareholder's Equity}}$$

Table 4.17

Debt-Equity Ratio of Nepal SBI

(Rs. in 'Lakh')

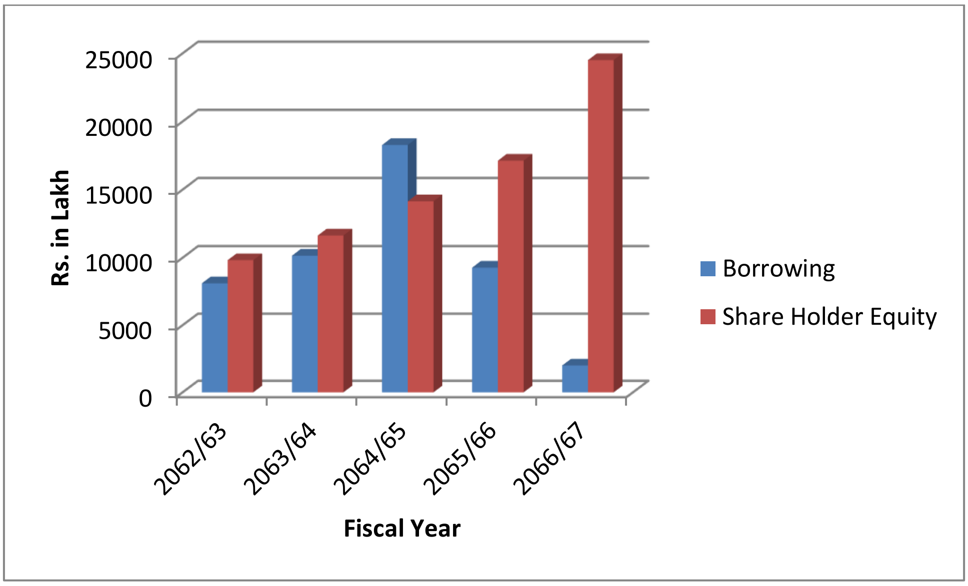
Fiscal Year	Borrowing (X)	Share Holder Equity (Y)	Debt-Equity Ratio (X/Y)
2062/63	8124.29	9823.74	0.83:1
2063/64	10153.65	11632.91	0.87:1
2064/65	18274.8	14146.45	1.29:1
2065/66	9274.66	17126.07	0.54:1
2066/67	2000.00	24505.54	0.08:1

Source: Appendix-8

The above table shows the debt equity ratio of Nepal SBI. The column X shows the figure of borrowings and column Y shows the figure of share holder's equity. By dividing the column X by Y is the result of debt equity ratio. Here the range of debt equity ratio of Nepal SBI is 0.08:1 to 1.29:1. The trend of debt equity ratio is fluctuating every year. Nepal SBI has high portion of equity than long debenture where as for a banking sector fixed deposit is also considered as long term obligation but in above analysis researcher has calculated only borrowing as long term debt. The above table shows that Nepal SBI's financial strength is strong because it has more internal fund to repay the borrowing capital except 2064/65. The figure of long term debt and share holder's equity is presenting in the bar diagram below.

Figure 4.13

Bar Diagram Showing Borrowing and Shareholder's Equity of Nepal SBI



From the diagram it shows the status of long term debt and share holder's equity. The long term debt is in fluctuating trend and shareholder equity is increasing rapidly over the seven year's period. The position of shareholder equity is higher than the long term debt except 2064/65. This indicates that the bank used more internal fund than external fund.

4.8.4 Interest Coverage Ratio (ICR)

ICR measures the capacity to pay interest expenses. This ratio is calculated by dividing Net Profit before Interest & Tax (EBIT) by Interest cost amount.

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

Table 4.18

Calculation of Interest Coverage Ratio

(Rs. in Thousand)

Fiscal Year	EBIT (X)	Interest Expenses (Y)	Times
2062/63	5345.34	3347.70	1.60
2063/64	7568.52	4122.62	1.84
2064/65	8029.52	4549.18	1.77
2065/66	12677.32	8247.00	1.54
2066/67	19820.56	14436.94	1.37

Source: Annual Reports of Nepal SBI 2062/63 to 2066/67

The above table shows the position of interest coverage ratio (ICR) of Nepal SBI. The ICR is 1.60 times in F/Y 2062/63 this means EBIT is 1.60 times more than interest expenses. Likewise the ICR reached to 1.84 times in F/Y 2063/64. This result represents the Nepal SBI has increased its EBIT. EBIT decreased in 2064/65 and 2065/66. The interest coverage ratio of Nepal SBI ranges between 1.37 to 1.84 times. It means that the bank sufficiently capable to pay the interest expenses.

4.8.5 Profitability Ratio

Profitability ratio is related to profit. It shows the overall efficiency of the business concern. The earning capacity of a business is measured by profitability ratio. Maximization of profit is the main objectives of each and every business concern. It is very necessary to earn maximum profit for the successful running of a business concern. Here researcher is going to measure of Nepal SBI profitability by total assets & total capital fund to Net profit. It is computed by dividing to Net profit by Total Assets & Net Profit to total capital fund.

Table 4.19

Profitability Ratio of Nepal SBI

(Rs. in 'Lakh')

Fiscal Year	Net Profit after Tax (A)	Total Assets (B)	Return on Assets (C=A/B)	Total Capital Fund (D)	Return on Capital (E=A/D)
2062/63	1170.02	130358.39	0.90%	9823.74	11.91%
2063/64	2549.09	139012.01	1.83%	11632.91	21.91%
2064/65	2477.71	171874.46	1.44%	14146.45	17.51%
2065/66	3163.73	309166.82	1.02%	17126.07	18.47%
2066/67	3917.42	380476.79	1.03%	24505.54	15.98%

Source: Annual Reports of Nepal SBI 2062/63 to 2066/67

The above table shows the status of return on assets and return on capital employed of Nepal SBI. The ratio shows the relation of net profit after tax with the total assets and total capital employed. The rate of return of on assets is fluctuating trend and it is ranged between 0.90% to 1.83% throughout the five years period. Likewise the return on capital ratio presenting the relation of net profit with the capital employed. The range of return on capital employed is 11.91% to 21.91% it is fluctuating trend through five years of study period.

4.9 Major Findings of the Study

- ❖ The bank has 86% average contribution of customer deposit in the resources mobilization as per the data F/Y 2062/63 to 2066/67 and uses the other resources of 14% in average.
- ❖ Nepal SBI is well performing in the deposit collection sector. Actual deposit is almost to the budgeted figure. It is found (r) is 0.999 and PE is 0.0001. The figure of 'r' shows that there is positive perfect correlation between budgeted deposit and actual deposit. The relation of PE with r is r > 6PE, it is significant so the actual deposit going on same direction.
- ❖ The major concentration of resource mobilization of the Nepal SBI Bank is at deposit mobilization.
- ❖ In this respect, they incurred higher cost toward deposit mobilizations.
- ❖ Deposit mobilization by the Bank is found to be considerable growing every year but not so faster.
- ❖ Nepal SBI Bank is well performing in the deposit collection sector. Actual deposit is higher than the budgeted amount.
- ❖ The statistical tool CV represents that Nepal SBI's actual LDO is the variable nature than budgeted LDO. The correlation between budgeted and actual LDO is 0.9970 it means the relation between budgeted and actual LDO are high degree of positive co-related. Significance of r is tested with PE there is r > 6 PE this means the value of r is more significant. So it is not doubtful that actual LDO will go on same direction that of budgeted LDO.
- ❖ The researcher find that the almost 100% of achievement of targets in deployment of resources other than LDO i.e. NLDO.
- ❖ LDO is in fluctuating trend over the period. Although the average ratio of LDO to deposit is 72.00%.
- ❖ The relationship between actual deposit and actual O/S LDO is in fluctuating trend over the period.

- The interest holds highest percentage of expenses amount as deposit is the major resources of the bank. The COD of Nepal SBI is in the range of 2.95% to 4.47% it means the bank pays the interest 3.71% in average over the period.
- The amount of interest expenses is decreasing every year, which shows that the total deposit is more variable than of interest expenses.
- The cost of deposit of the bank was in fluctuating trend every year in the study period.
- The yearly interest income is in fluctuating trend in amount where the O/S LDO is increasing. In the term of average rate of return is fluctuating trend it is ranges of 8.01% to 12.98%. The average rate of return over the study period is 10.50%.
- The amount of interest margin of Nepal SBI is in fluctuating trend where the increment percentage is also in fluctuating trend over the study period.
- There is positive correlation between actual o/s LDO and interest income.
- There is high increase in deposit and the customer also has been taking loans from the Bank.
- The Current ratio of Nepal SBI has almost met the standard of 2:1 but not in well position.
- Debt-Equity ratio shows that the Nepal SBI's financial strength is very strong because it has more internal fund to repay the borrowing capital except 2064/65.
- The interest coverage ratio of Nepal SBI ranges between 1.37 to 1.84 times.
- The range of return on total assets is 0.90% to 1.83% and range of return of total capital fund is 11.91% to 21.91% over the period.
- The cash flow analysis of the Nepal SBI shows that there is sufficient fund to repay the short term obligation and it has maintained the liquidity position as per the NRB direction.
- The cost volume profit analysis shows that the Bank's earning trend will be decline. If it cans increases its revenue and decrease in burden then the Bank's earning trend should be growing.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter is focused on the findings and conclusions obtained from the study of "Profit Planning in commercial banks: A case Study of Himalayan Bank Limited". This chapter is comprised of three sections, the first section deals with the summary of the study; the second section draws the conclusions of the study. Lastly, the third section proposed the suggestions to the problems observed on the basis of the findings.

5.1 Summary

Nepal is a developing country, which started its economic development plans and policies more than four decades ago and has adopted the economic development plans through liberalization recently. The policy of development plans through liberalization recently. The policy of liberalization that the government adopted after restoration of democracy in 1990 calls for primitive and facilitative role of the government together with its strict regulatory functions. The subject matter of economic development has been limited due to variety of geographical structural and economic development has been limited due to variety of geographical structural and economic constraints. The economic growth of a country can't imagine without financial institutions.

Commercial banks play a vital role as a financial institution which plays a quite important role of every economy by providing capital for the development of industry trade and business. Commercial bank pools between savers and users thereby raising employment opportunity. Besides the economic contribution commercial banks are also recognizes its social responsibilities by contributed to various social and welfare organization. The major income source of bank is interest margin which depends upon the deployment of available resources. The bank generally deployed their resources for the purpose of liquidity, lending and investing in securities. So the overall profitability of bank depends on lending procedure, lending policy and investment policy. The main objective of the study is to evaluate the budgeting and profit planning system of NSBI. The study is mostly based on secondary data and required data have been collected by using various sources. There are many commercial banks operating in Nepal which are taken as population of the study among them NSBI has been taken as a sample of the study and collected data has been analyzed by using various statistical and financial tools. NSBI is one of the well established commercial bank in Nepal. NSBI is able to maintain its position as a market leader in the banking sector and there is ongoing effort and commitment in enhancing its financial position.

5.2 Conclusion

On the basis of major findings of study some conclusion has drawn about the NSBI. Profit planning and controlling system of NSBI is not effective because it can't generate more profit in F/Y 2062/63 to F/Y 2064/65. The profit of 2062/063, 2063/64 and 9823.74, 11632.91 and 14146.45 lakhs respectively. But in other two fiscal years 2065/66 and 2066/67 the bank has been generated satisfactory profit level i.e. 3163.73 and 3917.42 lakhs respectively. There is variance in budgeted and actual performance and it can't cross budgeted figure during the study period. This analysis concludes that the growth of the bank is in significant. But in this two current fiscal year, NSBI is increasing its internal fund by increasing capital. This means the banks strengthen their capability internally. The relationship between budgeted and actual figures is negatively correlated. The non fund consuming business of NSBI is not remarkable since it can't give the return to the bank without investing the funds. The average cost of deposit (COD) of bank is normally high it means the bank is not able to collect cost free deposit. The major income source is interest margin. The trend of interest margin is fluctuating trend but it was highly increasing in current fiscal year. The bank can't maintain the cash and bank balance to meet the current obligations so the liquidity position of NSBI is not so better. The NSBI use more external fund to repay its borrowings sop the financial position or strength of NSBI is not strong. The two current fiscal year shows that the return on assets and return on capital is satisfactory which shows the good earning capacity of the bank.

The result of the study shows that the overall performance of NSBI is not satisfactory and progressive because the bank use more external fund to repay its borrowing. There is the declination of faith of customers towards the bank because of this heavy investment on non performing assets.

5.3 Recommendations

On the basis of the study on profit planning of NSBI Bank, the following suggestions are recommended to improve the profit planning system of the Bank:

- Commercial Banks and Financial institutions are increasing day by day in Nepal. It grows the competition with the banks so NSBI should make some policy to keep its position as before among the Nepalese banks.
- Employee training at advance level should be given more focus in order to keep the manpower updated with the changing practices and technologies.
- Nepal's accession to the WTO would permit international banks to operate in Nepal so NSBI needs to make their business plan and strategy accordingly which can convert challenges into opportunities.
- NB Bank should be conscious about the factors affecting the business like Global economic crisis, existing abnormal situation, political uncertainly etc.
- Branch monitoring and controlling mechanism should be made at the regional level also in order to ensure the better functioning of the branch offices located at such locations, which are far from the Head office.
- Objectives of the Bank should be clearly defined in order to avoid the risk of it being misinterpreted.
- Every business concerns have one another obligation i.e. corporate social responsibility so NSBI needs more involvement in social activities in the coming days.
- The bank needs to put more focus on the non fund consuming business activities like LC, Bank guarantee, foreign exchange and other. It supports in the overall profitability of the bank.
- The average cost of deposit of the Bank is high, therefore Bank should try to lower it by mobilizing more and more low cost or cost free deposits there by reducing the interest cost because due to the high cost of deposit, bank is forced to invest its fund more on highly yielding assets, which are generally not liquid and obviously risky for the Bank.
- Bank should implement its activities with prior planning; there must be budgeting system, which enables it to achieve its objectives.
- International relations of the NSBI Bank are not satisfactory in comparison to other banks. Due to tough competition the bank should make negotiation with the international banks to increase its transactions in the international areas.

- People in rural area of Nepal are still out of banking services. So NSBI is suggested to take bold steps to expand and upgrade its network or each such area with their products and services.
- Non performing assets could wreck bank's profitability but while lending to the borrowers proper analysis of the loan proposal must be done which will decrease the chances of bad loan to the bank.

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APPENDICES

Appendix – 1

Deposit Collection Budget of Nepal SBI

Amount (In Million)

Year	**X**	**Y**	**x = X – $\overline{X}$**	**y = Y – $\overline{Y}$**	**xy**	**x^2**	**y^2**
2062/63	1129	1100	-907	-880	798160	822649	774400
2063/64	1181	1144	-855	-836	714780	731025	698896
2064/65	1402	1371	-634	-609	386106	401956	370881
2065/66	2805	2796	769	816	627504	591361	665856
2066/67	3663	3489	1627	1509	2455143	2647129	2277081
	$\sum X$=10180	$\sum Y$=9900	$\sum x$=0	$\sum y$=0	$\sum xy$=4981693	$\sum x^2$=5194120	$\sum y^2$=4787114

$$(\overline{X}) = \frac{\Sigma X}{N} = \frac{10180}{5} = 2036$$

$$(\overline{Y}) = \frac{\Sigma Y}{N} = \frac{9900}{5} = 1980$$

$$\sigma_x = \sqrt{\sum\frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{1038824 - 4145296} = 1762.52$$

$$\sigma_y = \sqrt{\sum\frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{957422.8 - 3920400} = 1721.33$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{4981693}{\sqrt{5194120} \times \sqrt{4787114}} = \frac{4981693}{2279.06 \times 2187.95}$$

$$= \frac{4981693}{4986469.33} = 0.999$$

$$CV_x = \frac{\sigma_x}{\overline{X}} \times 100 = \frac{1762.52}{2036} \times 100 = 86.57\%$$

$$CV_y = \frac{\sigma_y}{\overline{Y}} \times 100 = \frac{1721.33}{1980} \times 100 = 86.93\%$$

$$\text{PE} = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.999^2}{\sqrt{5}} = \frac{0.001999}{2.236068} = 0.00060$$

$$6\text{PE} = 6 \times 0.00060 = 0.0036 \; (r > 6\text{PE})$$

Appendix – 2

Summary of Budgeted LDO and Achievement

Amount (In Million)

Year	**X**	**Y**	**x = X – $\overline{X}$**	**y = Y – $\overline{Y}$**	**xy**	**x2**	**y2**
2062/63	845	763	-598.2	-473.2	283068.2	357843.2	223918.2
2063/64	1058	946	-385.2	-290.2	111785	148379	84216.04
2064/65	1491	1211	47.8	-25.2	-1204.56	2284.84	635.04
2065/66	1752	1513	308.8	276.8	85475.84	95357.44	76618.24
2066/67	2070	1748	626.8	511.8	320796.2	392878.2	261939.2
	∑X=7216	∑Y=6181	∑x=0	∑y=0	∑xy=799921	∑x2=996743	∑y2=647327

$$(\overline{X}) = \frac{\Sigma X}{N} = \frac{7216}{5} = 1443.2$$

$$(\overline{Y}) = \frac{\Sigma Y}{N} = \frac{6181}{5} = 1236.2$$

$$\sigma_x = \sqrt{\sum\frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{199348.6 - 2082826.24} = 1372.39$$

$$\sigma_y = \sqrt{\sum\frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{129465.4 - 1528190.4} = 1182.68$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{799921}{\sqrt{996743} \times \sqrt{647327}} = \frac{799921}{998.37 \times 804.57}$$

$$= \frac{799921}{803258.55} = 0.996$$

$$CV_x = \frac{\sigma_x}{\overline{X}} \times 100 = \frac{1372}{1443.2} \times 100 = 95.07\%$$

$$CV_y = \frac{\sigma_y}{\overline{Y}} \times 100 = \frac{1182.68}{1236.2} \times 100 = 95.67\%$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.996^2}{\sqrt{5}} = 0.0024$$

$$6PE = 6 \times 0.0024 = 0.01445 \; (r > 6PE)$$

Appendix – 3

Budgeted and Actual NLDO of Nepal SBI

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2062/63	550	541	-488	-469.2	228969.6	238144	220148.6
2063/64	560	444	-478	-566.2	270643.6	228484	320582.4
2064/65	580	507	-458	-503.2	230465.6	209764	253210.2
2065/66	1600	1503	562	492.8	276953.6	315844	242851.8
2066/67	1900	2056	862	1045.8	901479.6	743044	1093698
	∑X=5190	∑Y=5051	∑x=0	∑y=0	∑xy=1908512	∑x2=1735280	∑y2=2130491

$$(\bar{X}) = \frac{\Sigma X}{N} = \frac{5190}{5} = 1038$$

$$(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{5051}{5} = 1010.2$$

$$\sigma_x = \sqrt{\sum \frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{347056 - 1077444} = 854.63$$

$$\sigma_y = \sqrt{\sum \frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{426098.2 - 1020504.04} = 770.98$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{1908512}{\sqrt{1735280} \times \sqrt{2130491}} = \frac{1908512}{1317.3 \times 1459.6}$$

$$= \frac{1908512}{1922731.08} = 0.9926$$

$$CV_x = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{854.63}{1038} \times 100 = 82.33\%$$

$$CV_y = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{770.98}{1010.2} \times 100 = 76.32\%$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.9926^2}{\sqrt{5}} = 0.0044$$

$$6PE = 6 \times 0.0044 = 0.0264 \ (r > 6PE)$$

Appendix – 4

Budgeted and Actual NLDO of Nepal SBI

Amount (In Million)

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2062/63	1100	763	-880	-473.2	416416	774400	223918.2
2063/64	1144	946	-836	-290.2	242607.2	698896	84216.04
2064/65	1371	1211	-609	-25.2	15346.8	370881	635.04
2065/66	2796	1513	816	276.8	225868.8	665856	76618.24
2066/67	3489	1748	1509	511.8	772306.2	2277081	261939.2
	$\sum X=9900$	$\sum Y=6181$	$\sum x=0$	$\sum y=0$	$\sum xy=1672545$	$\sum x^2=7487114$	$\sum y^2=647326.8$

$$(\bar{X}) = \frac{\Sigma X}{N} = \frac{9900}{5} = 1980$$

$$(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{6181}{5} = 1236.2$$

$$\sigma_x = \sqrt{\sum\frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{957422.8 - 3920400} = 1721.33$$

$$\sigma_y = \sqrt{\sum\frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{129465.36 - 1528190.44} = 1182.68$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{1672545}{\sqrt{4787114} \times \sqrt{647326.8}} = \frac{1672545}{2187.947 \times 804.566}$$

$$= \frac{1672545}{1760347.766} = 0.9501$$

$$CV_x = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{1721.33}{1980} \times 100 = 86.93\%$$

$$CV_y = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{1182.68}{1236.2} \times 100 = 95.67\%$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.9501^2}{\sqrt{5}} = 0.0293$$

$$6PE = 6 \times 0.0293 = 0.1758 \; (r > 6PE)$$

Appendix – 5

Summary of Actual Deposit and Interest Expenses

Year	X	Y	$x = X - \overline{X}$	$y = Y - \overline{Y}$	xy	x^2	y^2
2062/63	1100	33	-880	-36	31680	774400	1296
2063/64	1144	41	-836	-28	23408	698896	784
2064/65	1371	45	-609	-24	14616	370881	576
2065/66	2796	82	816	13	10608	665856	169
2066/67	3489	144	1509	75	113175	2277081	5625
	$\sum X$=9900	$\sum Y$=345	$\sum x$=0	$\sum y$=0	$\sum xy$=193487	$\sum x^2$=4787114	$\sum y^2$=8450

$$(\overline{X}) = \frac{\Sigma X}{N} = \frac{9900}{5} = 1980$$

$$(\overline{Y}) = \frac{\Sigma Y}{N} = \frac{345}{5} = 69$$

$$\sigma_x = \sqrt{\sum \frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{957422.8 - 3920400} = 1721.33$$

$$\sigma_y = \sqrt{\sum \frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{1690 - 4761} = 55.42$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{193487}{\sqrt{4787114} \times \sqrt{8450}} = \frac{193487}{2187.947 \times 91.924}$$

$$= \frac{193487}{201124.84} = 0.962$$

$$CV_x = \frac{\sigma_x}{\overline{X}} \times 100 = \frac{1721.33}{1980} \times 100 = 86.93\%$$

$$CV_y = \frac{\sigma_y}{\overline{Y}} \times 100 = \frac{55.42}{69} \times 100 = 80.32\%$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.962^2}{\sqrt{5}} = 0.0225$$

$$6PE = 6 \times 0.0225 = 0.135 \ (r > 6PE)$$

Appendix – 6

Summary of Actual LDO and Interest Income

Year	X	Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	xy	x^2	y^2
2062/63	763	71	-473.2	-53.8	25458.16	223918.2	2894.44
2063/64	946	83	-290.2	-41.8	12130.36	84216.04	1747.24
2064/65	1211	97	-25.2	-27.8	700.56	635.04	772.84
2065/66	1513	146	276.8	21.2	5868.16	76618.24	449.44
2066/67	1748	227	511.8	102.2	52305.96	261939.2	10444.84
	$\sum X=6181$	$\sum Y=624$	$\sum x=0$	$\sum y=0$	$\sum xy=96463.2$	$\sum x^2=647326.8$	$\sum y^2=16308.8$

$$(\bar{X}) = \frac{\Sigma X}{N} = \frac{6181}{5} = 1236.2$$

$$(\bar{Y}) = \frac{\Sigma Y}{N} = \frac{624}{5} = 124.8$$

$$\sigma_x = \sqrt{\sum\frac{x^2}{n} - \left(\frac{\sum x}{n}\right)^2} = \sqrt{129465.36 - 1528190.44} = 1182.68$$

$$\sigma_y = \sqrt{\sum\frac{y^2}{n} - \left(\frac{\sum y}{n}\right)^2} = \sqrt{3261.76 - 15575.04} = 114.95$$

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \times \sqrt{\sum y^2}} = \frac{96463.2}{\sqrt{647326.8} \times \sqrt{16308.8}} = \frac{96463.2}{804.566 \times 127.706}$$

$$= \frac{96463.2}{102747.91} = 0.9388$$

$$CV_x = \frac{\sigma_x}{\bar{X}} \times 100 = \frac{1182.68}{1236.2} \times 100 = 95.67\%$$

$$CV_y = \frac{\sigma_y}{\bar{Y}} \times 100 = \frac{114.95}{124.8} \times 100 = 92.11\%$$

$$PE = 0.6745 \times \frac{1 - r^2}{\sqrt{n}} = 0.6745 \times \frac{1 - 0.9388^2}{\sqrt{5}} = 0.0358$$

$$6PE = 6 \times 0.0358 = 0.2147 \ (r > 6PE)$$

Appendix – 7

Calculation of Current Assets and Current Liabilities

(Rs. in 'Lakh')

F/Y	Cash and Bank Balance	Other Current Assets	Total Current Assets	Borrowing	Other Current Liabilities	Total Current Liabilities
2062/63	14813.58	2502.57	17316.15	8124.29	1927.57	10051.86
2063/64	14726.9	2113.88	16840.78	10153.65	2284.03	12437.68
2064/65	16469.73	2176.65	18646.38	18274.8	1548.11	19822.91
2065/66	19039.06	3412.65	22451.71	9274.66	2564.4	11839.06
2066/67	34412.6	341881.73	376294.33	2000.00	4283.33	11839.06

Appendix – 8

Calculation of Borrowing and Shareholder Equity of Nepal SBI

(Rs. in 'Lakh')

Fiscal Year	Borrowing	Paid up capital	Reserve	P/L	Share Holder Equity
2062/63	8124.29	6402.36	3421.38	1170.02	10993.76
2063/64	10153.65	6477.98	5154.92	2549.09	14181.99
2064/65	18274.8	8745.28	5401.17	2477.71	16624.16
2065/66	9274.66	8745.28	8380.79	3163.73	20289.80
2066/67	2000.00	16536.24	5892.29	3917.42	26505.53

Appendix – 9

Nepal SBI Bank Limited

Interest Rate and Major Deposit Schemes

Type of Deposit	Rate p.a.	Min. Bal. (Rs.)	Features
Saving Deposit			ATM Card with charge, ABBS facility with charges, free e-Banking
1. Normal Saving	3.00%	0.00	Free ATM Card, Free ABBS facility, free e-Banking, free U-SIM
2. Saral Bachat	3.00%	501.00	Higher Interest for higher deposit, free ATM Card, free ABBS, free e-Banking, free U-SIM
3. Indreni Bachat	3.00% to 4.00%	10,000.00	Free ATM Card, free ABBS facility, free Internet Banking, free U-SIM
4. Swarnim Bachat	4.00%	50,000.00	Free ATM Card, free ABBS facility, free e-Banking, free U-SIM
5. Vishes Bachat	6.00%	100,000.00	Free ATM Card, free ABBS facility, free Internet Banking, free U-SIM, concession in Bharat yatra Card charge, locker rent
6. Varistha Nagarik Bachat (for senior citizens, Aged 50 years and above)	4.00%	500.00	Free ATM Card, free ABBS facility, free e-Banking, free U-SIM
USD Saving	0.50%	$ 500.00	Free ATM Card, free ABBS facility, free Internet Banking, free U-SIM, concession in Bharat yatra Card charge, locker rent, monthly interest payment for FD
Fixed Deposit (NRs) on period Basis			
1 month < 3 months	3.25%		Loan facility against FD before maturity
3 month < 6 months	3.75%		Loan facility against FD before maturity
6 month < 1 years	5.50%		Loan facility against FD before maturity
1 year < 2 years	6.50%		Loan facility against FD before maturity
2 years < 3 years	7.00%		Loan facility against FD before maturity
3 years < 5 years	7.50%		Loan facility against FD before maturity
Above 5 years up to 7 years	8.00%		Loan facility against FD before maturity
Fixed Deposit (NRs) for one year & above			
Below NRs 10.00 lacs	9.00%		Loan facility against FD before maturity
NRs. 10.00 lacs & < NRs. 25.00 lacs	9.50%		Loan facility against FD before maturity
NRs. 25.00 lacs & < NRs. 50.00 lacs	10.00%		Loan facility against FD before maturity

NRs. 50.00 lacs & < NRs. 1.00 crore	10.50%		Loan facility against FD before maturity
NRs. 1.00 crore & < NRs. 5.00 crore	11.00%		Loan facility against FD before maturity
NRs. 5.00 crore & < NRs. 10.00 crore	11.50%		Loan facility against FD before maturity
NRs. 10.00 crore & < NRs. 25.00 crore	12.00%		Loan facility against FD before maturity
Recurring Deposit (RD)	Equiv to FD rate		Loan facility against FD before maturity, Interest capitalization
Dhanbriddhi Bachat	Equiv to FD rate		Loan facility against FD before maturity, Interest capitalization
Call Deposit			Interest rate according to deposit amount
Below NRs. 1.00 lacs	5.00%		Interest rate according to deposit amount
NRs. 1.00 lacs & < NRs. 10.00 lacs	6.00%		Interest rate according to deposit amount
NRs. 10.00 lacs & < NRs. 1.00 crore	7.00%		Interest rate according to deposit amount
NRs. 1.00 crores and above	8.00%		Interest rate according to deposit amount