

**PROFIT PLANNING IN COMMERCIAL BANK: A CASE
STUDY OF HIMALAYAN BANK LIMITED**

A Thesis

Submitted By

Thakur Prasad Belbase

Center Department of Management

Campus Roll No.: 473/064

T. U. Regd. No.: 7-1-22-1078-2000

Second Year Symbol No.: 280659

Submitted To

Office of the Dean

Faculty of Management

Tribhuvan University

**In Partial Fulfillment of the Requirement for the Degree of Master of
Business Studies (MBS)**

Kathmandu, Nepal

February 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by:

THAKUR PRASAD BELBASE

Entitled

PROFIT PLANNING IN COMMERCIAL BANK: A CASE STUDY OF HIMALAYAN BANK LIMITED

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

Achyut Gyawali
(Thesis Supervisor)

Prof Dr. Balkrishna Shrestha
(Chairperson Research Committee)

Prof. Dr. Balkrishna Shrestha
(Head of Department)

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Submitted By:

THAKUR PRASAD BALBASE

Entitled:

**PROFIT PLANNING IN COMMERCIAL BANK: A CASE STUDY
OF HIMALAYAN BANK LIMITED**

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

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Chairman, Research Committee -----

Member (Thesis Supervisor) -----

Member (External Expert) -----

Member (CDM) -----

Date:.....

DECLARATION

I hereby, declare that the work reported in this thesis entitled “**Profit Planning in Commercial Bank: A Case Study of Himalayan Bank Limited**” submitted to office of the Dean, Faculty of Management, Tribhuvan University, is my original piece of work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS) under the supervision and guidance of **Achyut Gyawali** of university campus, Kirtipur.

.....

Thakur Prasad Belbase

Researcher

T.U. Registration No: 7-1-22-1078-2000

Campus Roll No.: 473/064

Second Year Symbol No.: 280659

Date:.....

ACKNOWLEDGEMENT

This thesis entitles “**Profit Planning in Commercial Bank : A Case Study of Himalayan Bank Limited**” has been prepared in partial fulfillment for the degree of Masters of Business Studies (MBS) under the supervision of Achyut Gyawali, Lecturer of University Campus, Kirtipur. It is my privilege of getting helps and co-operation from this persons. It is not possible to enumerate the names of him. However, it will be matter of injustice if I forget the names of his personalities whose valuable suggestion and co-operation escorted to complete this thesis report.

Firstly, I would like to express my sincers gratitude to my thesis advisor Achyut Gyawali of University Campus, Kirtipur. Who guided throughout research work with providing valuable suggestions, supports and supervisions. Without these remarkable help and guidance, this thesis would not have come in this form.

Similarly, I would like to thank staffs of Himalayan Bank to support me for helping to conduct necessary survey and complete the study; it would have not been possible to complete the study without their support. I am equally grateful to all the anothers, whose books, reports and thesis have been consulted during my thesis preparation period.

Lastly, I also owe deep gratitude to all family members, my friends, colleagues, well wishers and various organizations and institute extended their generous support to complete this thesis work.

Thakur Prasad Belbase

TABLE OF CONTENTS

	Page No.
<i>Recommendation</i>	<i>i</i>
<i>Viva-voce Sheet</i>	<i>ii</i>
<i>Declaration</i>	<i>iii</i>
<i>Acknowledgement</i>	<i>iv</i>
<i>Table of Contents</i>	<i>v-viii</i>
<i>List of Table</i>	<i>ix</i>
<i>List of Figure</i>	<i>x</i>
<i>Abbreviations</i>	<i>xi</i>
CHAPTER - I : INTRODUCTION	1-17
1.1 Background of the Study	1
1.1.1 Nepalese Economy Current Macroeconomic Condition	3
1.1.2 Meaning and importance of financial institutions	4
1.1.3 Major Financial Policy of Nepal	5
1.1.4 Development of Banks	9
1.2 Profile of HBL	11
1.3 Statement of the Problems	12
1.4 Rational of the Study	13
1.5 Objective of the Study	14
1.6 Limitations of the Study	15
1.7 Organization of the Study	16
CHAPTER - II : REVIEW OF LITERATURE	18-77
2.1 Introduction	18
2.2 Concept of Commercial Bank	18
2.2.1 NRB Regulation	19
2.2.1.1. Prescribed Regulations for commercial Banks	20
2.2.2 Evolution of Commercial Bank	21
2.2.3 Existing Scenario of Banking Sector	26

2.2.4 Domestic Legal Provisions Regarding Banking Sector	27
2.2.5 Existing Rules and Regulations Relating to the Commercial Banks.	29
2.2.6 Activities of the commercial bank	33
2.2.6.1 Collection of Resource	33
2.2.6.2 Development or mobilization of Resources	35
2.2.7 Impact of National and International Situation on Commercial Bank	38
2.3 Profits Planning as a Concept	39
2.4 Mechanism of Profit Planning	41
2.4.1 Profit as a Concept	41
2.4.2 Long Term and Short Term Profit Planning	42
2.4.3 Concept of Planning and Control	42
2.5 Budgetary Control	44
2.5.1 Concept of Budgeting and Budget.	44
2.5.2 Budgeting in Profit plan	44
2.5.3 Prerequisites of Budgeting	45
2.6 Basic concept of Profit Planning	46
2.7 Merits and Demerits of Profit Planning and Control	50
2.8 Profit planning and Control Process	51
2.9 Limitation of profit plan	53
2.10 Profit Planning in Commercial Banks	54
2.10.1 Planning for Resources	55
2.10.2 Non - Fund Consuming Income Plan	56
2.10.3 Planning for Expenditure	56
2.10.4 Planning for Revenue	57
2.11 Application of Profit Plan in Banking Sector	58
2.12 Execution of Profit Planning and Control	58
2.13 Review of Previous Studies	60

2.14 Research Gap	77
CHAPTER - III : RESEARCH METHODOLOGY	78-84
3.1 Introduction	78
3.2 Research Design	78
3.3 Population and Sample	79
3.4 Sources and Collection Data	79
3.5 Study Variables	79
3.6 Analytical Tools	79
3.6.1 Statistical and Mathematical Tolls	80
3.6.1.1 Percentile Increment	80
3.6.1.2 Arithmetic Mean (Average)	80
3.6.1.3 Correlation of Coefficient	81
3.6.1.4 Regression Analysis	82
3.6.1.5 Standard Deviation	83
3.6.2 Financial Tools	83
CHAPTER - IV : DATA PRESENTATION AND ANALYSIS	85-121
4.1 Mission Statement of HBL	85
4.2 Resource Mobilization Planning	85
4.3 Customer Deposit Collection	87
4.3.1 Deposit Collection Budget of HBL	88
4.4 Resources Deployment Plan of HBL	93
4.4.1 Budgeted and Actual LDO of HBL	95
4.4.2 Resources Deployment in Other Sector	100
4.4.3 Actual deposit and outstanding LDO of HBL	102
4.5 Interest Expenses	107
4.6 Interest Income	109
4.6.1 Interest Margin	111
4.7 Performance Evaluation of HBL	113

4.8 Ratio Analysis	113
4.8.1 Liquidity Ratio	114
4.8.2 Leverage Ratio	116
4.8.3 Debt-Equity Ratio	116
4.8.4 Interest Coverage Ratio (ICR)	118
4.8.5 Profitability Ratio	119
4.9 Major Findings of the Study	120
CHAPTER V : SUMMARY, CONCLUSION AND RECOMMENDATION	122-126
5.1 Summary	122
5.2 Conclusion	123
5.3 Recommendations	124
BIBLIOGRAPHY	127-132
APPENDICES	133-139

LIST OF TABLE

	Page No.
Table 4.1 : Status of Available Resource of HBL	86
Table 4.2 : Status of Budgeted and Actual Deposit Collection	88
Table 4.3 : Summary of Deposit Collection Budget and Actual Deposit	91
Table 4.4 : Total Income Generating Deployment of HBL	94
Table 4.5 : Comparative Table showing Budgeted and Actual Loan, Discounted, Overdraft of HBL	95
Table 4.6 : Summary of Budgeted LDO and Achievement	98
Table 4.7 : Status of Budgeted and Actual Deployment in Other Sector (NLDO)	100
Table 4.8 : Summary of NLDO of HBL	102
Table 4.9 : Status of LDO vs Actual Deposit of HBL	103
Table 4.10 : Summary of actual deposit and actual O/S LDO	106
Table 4.11 : Status of average cost of deposit	107
Table 4.12 : Status of average return of LDO	109
Table 4.13 : Summary of Actual LDO and Interest Income	110
Table 4.14 : Movements in Interest Margin of HBL	112
Table 4.15 : Current Ratio of HBL	114
Table 4.16 : Debt-Equity Ratio of HBL	116
Table 4.17 : Calculation of Interest Coverage Ratio	118
Table 4.18 : Profitability Ratio of HBL	119

LIST OF FIGURE

	Page No.
Figure 4.1 : Bar diagram showing status of available resources of HBL	86
Figure 4.2 : Bar Diagram Showing Budgeted and Actual Deposit Collection	89
Figure 4.3 : Trend Line Showing Budgeted and Actual Figure	90
Figure 4.4 : Bar Diagram Showing Budgeted and Actual LDO of HBL	96
Figure 4.5 : Trend Line Showing the Status of Budgeted and actual deployment in LDO of HBL	97
Figure 4.6 : Bar Diagram showing status of budgeted and actual NLDO and HBL	101
Figure 4.7 : Bar diagram showing actual deposit and actual LDO of HBL	104
Figure 4.8 : Trend line showing actual deposit and actual LDO of HBL	105
Figure 4.9 : Bar Diagram Showing Average Cost of Deposit	108
Figure 4.10 : Bar Diagram Showing Average Cost of Deposit	111
Figure 4.11 : Bar Diagram Showing Interest Margin of HBL	112
Figure 4.12 : Bar Diagram Showing Current Assets and Current Liabilities of HBL	115
Figure 4.13 : Bar Diagram Showing Borrowing and Shareholder's Equity of HBL	117

ABBREVIATIONS

A.D.	:	Anno Domini
ASEAN	:	Association for South East Asian Nations
ATM	:	Automated Teller Machine
B.S	:	Bikram Sambat
C.V.	:	Coefficient of Variable
EBIT	:	Earning Before Interest and Tax
F.Y.	:	Fiscal Year
G.D.P	:	Gross Domestic Product
HBL	:	Himal Bank Limited
L/C	:	Letter of Credit
LDO	:	Loan, Discount and Overdraft
MBS	:	Master of Business Studies
NBL	:	Nepal Bank Limited
NGO	:	Non-Government Organization
NIDC	:	Nepal Industrial Development Corporation
NRB	:	Nepal Rastra Bank
OD	:	Overdraft
PPC	:	Profit Planning and Control
RBB	:	Rastriya Banijya Bank
RoE	:	Return on Equity
SCBNL	:	Standard Chartered Bank Nepal Limited
TPC	:	Trade Promotion Centre
TU	:	Tribhuvan University
TUCL	:	Tribhuvan University Central Library